

East Asia's Dynamic Development Model and the Republic of Korea's Experiences

Ho-Chul Lee
Mary P. McNulty

The World Bank
Development Economics
Office of the Senior Vice President and Chief Economist
March 2003



Abstract

No region has been more dynamic in recent years than East Asia. Despite its successful economic development, evaluations of the East Asian development model have often been capricious, shifting from “miracle” to “cronyism.” How can we explain East Asia’s ups and downs consistently? To respond to this challenge, it is necessary to study the progress of East Asian development and to trace the influence of Asian cultural values. This study mainly focuses on cultural aspects of economic progress and analyzes East Asia’s philosophical and historical backgrounds to explain the dynamic process.

East Asians believe that balance between opposite but complementary forces, Yin and Yang, will ensure social stability and progress. Through repeated rebalancing to maintain harmony, the society comes to maturity. In traditional East Asian societies, a balance was maintained between Confucianism (Yang) and Taoism, Buddhism, and other philosophies (Yin). In modern societies, the challenge is to balance traditional systems (Yang) and Western style capitalism (Yin).

This East Asian development model explains the Republic of Korea’s rise, fall, and recovery. Korea was a poor country until the early 1960s, during the time when spiritualism (Yang) dominated. From the 1960s through the 1980s, Korea achieved rapid growth by finding a new balance and moving toward materialism (Yin) from spiritualism (Yang). But the failure to maintain a harmonious balance between cooperatism and collectivism (Yang) and individualism (Yin) led to major weaknesses in labor and financial markets that contributed significantly to the financial crisis in 1997. As Korea arrived at a new balance by instituting reform programs, the venture-oriented information and communication technology (ICT) industry blossomed and led to a rapid economic recovery. Since 2000, domestic financial scandals and political corruption have emerged as new social issues. Korea’s next challenge is to find a new harmonization between moralism (Yang) and legalism (Yin).

This paper—a product of the Office of the Senior Vice President and Chief Economist, Development Economics—is part of a larger effort in the Bank to examine institutional and cultural foundations of development across regions and countries. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Lorraine James, room MC4-347, telephone 202-473-5621, fax 202-522-1158, email address ljames@worldbank.org. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The authors may be contacted at hcleel@mofe.go.kr or mcnultym@gwu.edu. March 2003. (58 pages)

The Policy Research Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about development issues. An objective of the series is to get the findings out quickly, even if the presentations are less than fully polished. The papers carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent

East Asia's Dynamic Development Model and the Republic of Korea's Experiences

Ho-Chul Lee*, and Mary P. McNulty**

* Economic Adviser, DECVP, The World Bank, on secondment from the Ministry of Finance and Economy, Republic of Korea.

** Consultant, DECVP, World Bank and George Washington University.

Contents

I. Introduction	4
II. East Asians' Living Space	6
East Asian and Western Cultural Spaces	6
The Social Axis	7
The Political Axis	10
The Economic Axis	12
III. Principles of East Asia's Dynamic Development Pattern	16
Philosophical Foundations	16
East Asian Economic Thinking	22
Basic Conditions for the East Asian Approach	26
IV. Application to the Korean Economy	30
1960s to 1980s: Miracle on the Han River and the Movement from "Spiritualism" toward "Materialism"	30
1987-1997: Disharmony between "Cooperativism/Collectivism" and "Individualism" and Prelude to Crisis	37
1999-2000: One More Miracle and the Shift from "Cooperativism/ Collectivism" toward "Individualism"	42
Remaining Issues after 2000: Shift from "Moralism" toward "Legalism"	45
V. Conclusions	50
References	53
Annexes	56

I. Introduction

No region has been more dynamic than East Asia in recent times. Since the 1960s, a pattern of rapid growth and integration into the world economy has occurred in this region, particularly in Japan, the four Newly Industrializing Economies (NIEs) of South Korea¹, Singapore, Taiwan-China, and Hong Kong, and most recently China. Of course these economies did not experience unmitigated success. They also experienced the dark side of prosperity and some misfortunes, such as the economic sluggishness in China until the 1970s, the prolonged Japanese recession of the 1990s, and the financial crises in 1997. Undeniably, the East Asian economies exhibit dramatic vitality in both the upside and downside of growth and development.

In particular, the progress of the Korean economy has been very impressive. Korea, a country of 47 million people living in a small area no larger than the state of Indiana in the U.S., has achieved an impressive record of growth. Korea's per capita income grew 100-fold in four decades. Korea, which had less than \$100 in per capita income in the early 1960s, grew to become an industrial giant and joined the OECD in 1995.

Despite the relatively successful economic development efforts in East Asia in the second half of the 20th century, evaluations of the East Asian model have been mixed. After the World Bank published *The East Asian Miracle* in 1993, many economists looked for the main factors driving East Asia's rapid growth with highly equal income distribution. Following the 1997 crises, though, most studies focused on the negative points, emphasizing over-regulation, inadequate competition, and capital market rigidities that could stifle growth (Wade 1998, Dore 1998, Overholt 1997).

At times East Asian development has gone smoothly and at other times the economies have experienced great difficulties. Particularly in the early stages of development, the East Asian approach showed great promise as the economies in the region grew rapidly and the living standards of their people improved. Many countries stumbled badly,

¹ In this paper, Korea refers to the Republic of Korea (South Korea).

however. The merits and vulnerabilities of the East Asian models must be analyzed and reconciled if the East Asian approach, once extolled as the most successful model for poverty reduction, is to remain relevant for successful development.

The aim of this study is to present a coherent model of East Asia's development that explains the dynamics of the pattern of development, the "downs" as well as the "ups." A holistic approach to development is needed to investigate the issues that form the foundation and context of the model. In reality, economic growth is influenced by economic, institutional, and cultural factors. It is widely acknowledged that accumulations of capital, labor, and technology are crucial factors in economic growth. The institutional approach emphasizes the additional need for well-organized product, labor, and financial markets to manage these resources efficiently and a suitable legal framework that includes such protections as property rights to encourage technological progress. Cultural aspects also stimulate human progress and economic development.² Without doubt, all three sets of factors contribute to economic development. This study mainly explores cultural aspects of development to complement the main stream of research that has generally focused on economic and institutional factors.

This paper examines the philosophical and historical backgrounds that shape the East Asian model and examines how the model has coped with new challenges and changing conditions. The paper consists of two parts. The first part (Sections II and III) investigates the origins of East Asian cultural characteristics. Philosophical backgrounds such as Confucianism and Taoism are explored briefly, and principles of East Asia's pattern of dynamic development are analyzed. The second part (Section IV) explores Korea's economic development, the ups and downs, within the context of the East Asian model. The analysis focuses on changes in Korean attitudes and institutions as the country faces new challenges.

² The World Bank organized a conference on the interrelationships of culture and development process in July 2002. Findings are forthcoming as a book, *Culture and Public Action*, by Vijayendra Rao and Michael Walton.

II. East Asians' Living Space

Friedman and Friedman (1980) said human life is made up of individual choices and the freedom to choose without external interference will contribute to human welfare. Without doubt, this approach has become increasingly accepted in recent years. In reality, though, humans are never totally free from social restrictions because, as Aristotle observed, human beings are “social animals.” To consider individuals' lives and economic decisions more realistically, the social and political factors as well as economic factors that influence individual choices must be considered. These factors collectively define the “cultural space” within which individuals live and make choices. East Asian and Western cultures have developed differently through history, and so the cultural space of their people differs.

East Asian and Western Cultural Spaces

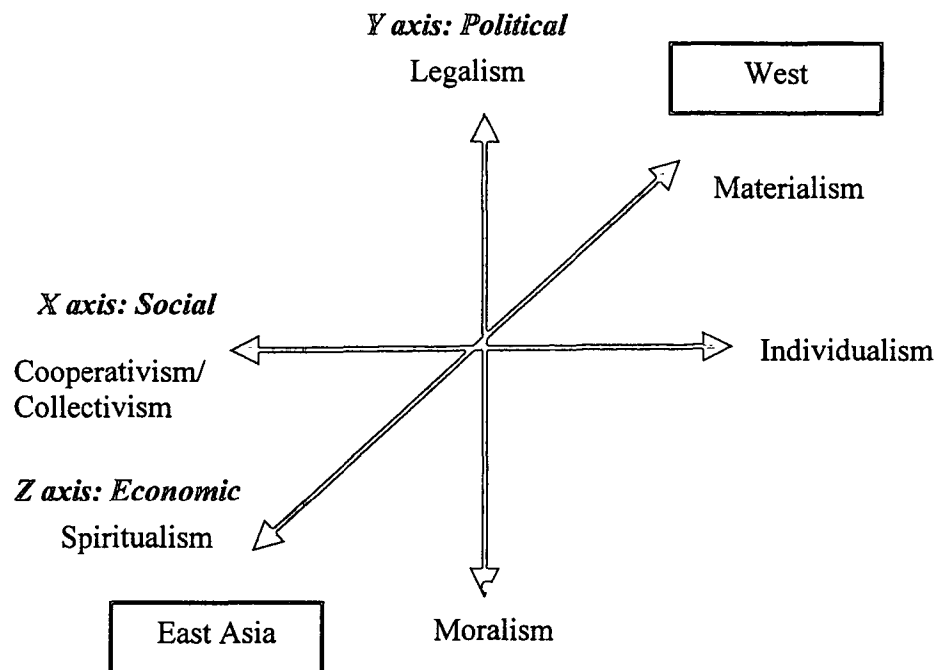
Throughout the history of human civilization, regions have developed different cultural values, ways of thinking, and norms of behavior. Taken together, these influences form a “cultural space” within which people live. East Asian societies were influenced primarily by Confucianism, Taoism, and Buddhism, and their languages are based on Chinese characters. East Asians have lived in a very different cultural space than Europeans and Americans whose culture was profoundly influenced by Christianity and share a different, non-Chinese alphabet. To explore the differences among cultures, cultural space can be described by three axes:³ social (X), political (Y), and economic (Z) (see Figure 1).

On the social axis (X), East Asian societies tend to stress families, cooperative values, and a modest demeanor, while Western societies are associated with individualism and a more forward demeanor. On the political axis (Y), Western societies have developed social order based on legal systems. In contrast, East Asian societies believe that rule by moral principles is better than rule by legal principles. On the economic axis (Z), East

³ Of course, a more complete cultural space would be described by a variety of axes (including e.g. medicine); however, this construction of three axes is most relevant for this discussion.

Asian societies tend to stress spiritual values and downplay material possessions, while Western economic thought tends to focus on material things – production and consumption. Of course, within any country there is a range of individuals, and within Western and Eastern societies there is a range of national averages. Generally, though, East Asian societies would be represented by points on the southwest section of each axis, while Western societies would be represented by points on the northeast section of the axes. Over time and with the acceleration of international integration, the placement of cultures along the axes has moved, seemingly progressing toward a convergence in various aspects.

Figure 1 The East Asian and Western Cultural Spaces



The Social Axis

Sociologists and anthropologists have traditionally approached the analysis of cultures by examining the dichotomy between individualism and cooperativism/collectivism.

Collectivist societies put relatively more value on group memberships and common goals

rather than individual concerns and self-interest (Earley and Gibson, 1998). This study adopts the concept of “cooperativism/collectivism” to reflect East Asians’ respect for individuals’ prestige and value but emphasis on cooperative relationships rather than competition to maintain social harmony. In contrast, Perry (2000) proposed a profile of the U.S.’s cultural values that includes individualism, openness, and equality/fairness and then compared that profile with other societies’ values of group orientation, hierarchy, “saving face” etc. (see Table 1).⁴

Table 1 Comparison of U.S. and Other Societies’ Values

America’s Cultural Values	Other Societies’ Cultural Values
(1) Individualism	(1) Group Orientation
(2) Equality/ Fairness	(2) Rank/ Status & Hierarchy
(3) Directness/ Openness/ Bluntness	(3) Indirectness/ Saving “Face”
(4) Oriented toward the Future	(4) Past Orientation
(5) Control over the Environment	(5) Acceptance of Fate
(6) Change as Natural & Positive	(6) Stability, Continuity & Tradition
(7) Control over Time	(7) Human Relationships/ Harmony
(8) Informality	(8) Formality/ Protocol/ Ritual
(9) Self-help/ Personal Improvement	(9) Birthright Inheritance
(10) Competition	(10) Cooperation
(11) “Doing” Orientation & Achievements	(11) “Being” Orientation
(12) Practicality/ Efficiency/ “Bottom Line”	(12) Philosophical Considerations
(13) Materialism	(13) Spiritual Considerations

Source: Perry (2000)

East Asian societies are cooperativism/collectivist in that they tend to stress human interrelationships compared with the West that tends to stress individualism and the importance of professionalism. The traditional Eastern philosophies of Confucianism, Buddhism, and Taoism have influenced the formation of East Asia’s cultural values and its management style. These might be summarized as social attitudes of educational enthusiasm and obedience, economic behaviors of thrift and diligence, and an economic framework of long-term investment and lifetime employment built on a seniority system.

⁴ Perry proposed that the American profile evolved through historical events: the Protestant Reformation of the 16th and 17th centuries, the Enlightenment of the 18th century, the Industrial Revolution of the 18th and

Familism based on human relationships is a pillar of the East Asian collectivist nature. Familism reflects the clear hierarchical order and system of social obligations based on Confucianism's five relationships: parents and children, ruler and subjects, husband and wife, older sibling and younger sibling, and friend and friend. Confucianism taught that these relationships formed the social order, and clear obligations and responsibilities contributed to harmonizing society. For example, young people should respect older people and obey them; at the same time, however, older people were expected to care for the young. Confucianism teaches that if people perform their roles in these relationships, society will be better and peaceful.⁵

Confucianism emphasizes benevolence ("ren"), as a basic moral principle, and etiquette ("li") as a method to keep social order. Confucianism holds that human nature is inherently good and that people have four virtues -- benevolence, justice, ritual, and wisdom -- which originate from four innate senses -- compassion, shame, concession, and the capacity to discriminate right and wrong, respectively (Mencius). Confucianism emphasizes the role of education, because its most important purpose is to prevent man's inherent good nature from being affected by the environment. East Asian attitudes such as modesty and saving face have been developed as aspects of the system of etiquette to maintain social order and protect people's four virtues.

Another pillar of the East Asian tradition is egalitarianism. In particular, Buddhism and Taoism contributed to the formation of egalitarian attitudes. Buddhism originated in India during the period of the Brahmins' caste system of strict class distinctions. Siddhartha, the founder of Buddhism, emphasized that each person is noble and valuable regardless of race, class, and gender and that all people -- whatever their origins, noble or humble -- can become a Buddha, the nearest level to god, if they follow his enlightenment. These ideas exerted profound influence on East Asia's egalitarian tradition. Egalitarianism can also be found in Taoism, a way of behavior that stresses the

19th centuries, the westward movement of the 17th through 19th centuries, and the new values of Relativism, Multiculturalism and Tolerance in the 20th century.

⁵ These relationships were described in Mencius and subsequently incorporated into the scriptures of Confucianism by Zhu Xi (1130-1200) who included them as the five moral doctrines ("Wulun").

importance of following the laws of nature. It teaches that essential nature is close to equality, and man should tone down his individualism in order to better harmonize with nature (and society). The egalitarian spirit of Buddhism and Taoism still lives in East Asians' minds, whatever religion they formally practice.

The Political Axis

East Asians historically have based their societies on moralism rather than legalism. Western societies, however, have traditionally been based on legalism, even as far back as the Hammurabic and Mosaic Codes and the extensive judicial system of the Roman Empire that was organized into Justinian Code. This fundamental distinction, compounded by the differing philosophical traditions and therefore moral priorities, can lead to unease and misunderstanding of the East Asian system by Westerners. For examples, Wolferen (1989) criticized the Japanese system as operating under heterogeneous rules, and *The Economist* (April 5, 2001) described China as having always been under the rule of man, far from the rule of law. During the 1997 financial crisis, Korea was severely criticized for its lack of legal framework, along with cronyism and a lack of transparency.

Early in its history, China experimented with systems based on legalism as well as moralism. The rise and fall of the first emperor of the Qin Dynasty (221-206 B.C.) and the lessons learned from the experience contributed to the tradition of placing priority on moralism rather than legalism. In 221 B.C. the small state of Qin (or Ch'in) first unified all of China. That is why "China" drew its name from the Qin Dynasty. The Qin Dynasty succeeded in building a unified, powerful nation based on the principles of a group of Legalist thinkers. The first Emperor of the Qin Dynasty abandoned cronyism, aggressively attracted talented people beyond his home state and family, and established a system of rules based on laws.

The prominent Legalist philosopher Han Fei Zi insisted that a ruler needed three factors to protect his throne and ensure the nation's sustainable growth: power and position ("shi"), management skill ("shu"), and law ("fa"). Han insisted that public power came

from the position rather than moral authority. He criticized the Confucian assertion that the authority of a ruler originated from the ruler's virtue and wisdom as too idealistic. For Han, it was more realistic to assume that people would follow a ruler because he has political power whether he is sage or not. To protect his position, a ruler needs to manage the bureaucracy effectively and so must have administrative skill. Han advised rulers to use incentive systems consisting of rewards and punishments. He also recommended that the performance criteria and responsibilities of a position be clearly defined when posts are assigned. Anyone who achieves the goals should be rewarded by the ruler, and anyone who is derelict of duty or oversteps his power should be punished. The rewards and punishments should be established and executed by clearly defined laws. If authority is wielded whimsically and without transparent codes, people will not obey and the ruler will not maintain his position. The ruler has to show people that incentives will be fairly executed by laws and not depend on arbitrary judgment.

Two legalists, Shang Yang and Li Si worked to implement Legalist ideas in building a nation. To establish a unified legal system, many regulations were adopted and a policy of standardization was adopted to promote efficiency. A uniform writing system was created. The currency and the measurements of length and weight were standardized to stimulate economic activity and trade. Even the widths of vehicles and highways were standardized to promote efficient transportation. Reform plans to promote an open society were adopted to break down the feudal system based on family lines and regional loyalties. The legalist government boldly encouraged immigration from other states by granting un-used land to foreigners who wanted to cultivate it and promote agriculture. It also opened high offices to talented persons beyond the Qin state. One example was the nomination of Li Si, a foreigner, as prime minister.

The Legalists' ideas started from a basic assumption that human nature is inherently selfish, in contrast to the Confucianist assumption that human nature is inherently good. The Legalists believed that the political system should be designed in response to the realities of human behavior. They tried to create political institutions that depended on rule by predictable laws, where a transparent system of rewards and punishments

effectively guided people's conduct and prevented officials from abusing their power. They thought that objectively described legal codes with transparent criteria would be preferable to subjective and idealistic moral principles.

Although the Qin Dynasty is considered a pioneering effort in establishing efficient administration and economic structures, it was overthrown after only 15 years. The legalist government went too far and lost support. Convinced of the superiority of his approach, Emperor Qin suppressed opposing ideas and denied other values. He prohibited any opposition, burned all Confucian books⁶, and then killed hundreds of dissenting scholars. By focusing exclusively on objective results, the Legalists failed to acknowledge the role of moral principles in a society. No social system can cover all aspects of human behavior with only legal codes. Qin's laws lacked sufficient flexibility to accommodate changing circumstances or the plight of individuals in unavoidable circumstances. The many regulations and harsh punishments, along with radical and sometimes impetuous reforms, generated much opposition among the population -- from scholars to common people. When the Emperor died while traveling, the system collapsed, and China turned to another approach.

The Han Dynasty (206 B.C.-220 A.D.), which followed the Qin Dynasty, rejected Legalism and adopted Confucianism as its basic philosophy. For the two millennia since then, the Confucian idea of rule by moral principles has been the dominant social principle. Due to the historical experience with the Qin Dynasty, East Asians widely think that rule by moral principles is better than that by legal principles.

The Economic Axis

Comparisons of economic systems often rely on binary categories such as capitalism versus communism, or free market states versus welfare states. A comparison of degrees of "Materialism" and "Spiritualism" might be more useful to understand the differences in cultural backgrounds reflected in Western and East Asian economic systems. On the

economic axis, East Asian societies traditionally stressed spiritual values over material possessions, whereas Western economics puts more emphasis on material matters -- production and consumption. Here, spiritualism means anti-materialism, not religious spiritualism which deals with life beyond death. According to Western economic theory, individuals and households seek to maximize utility. The most efficient production and pricing of goods and services are main issues in business, and households' "utility" is usually gauged with easily quantifiable measures such as spending on goods and services or household wealth. At the other end of the axis, East Asians traditionally strive to maximize their happiness within their Confucianism-based culture that stresses spiritualism over material matters -- once a person has sufficient wealth to satisfy basic needs, happiness relies on spiritual matters such as intellectual activities and human relationships.

Early Confucian scholars worried that the unfettered pursuit of self-interest would destroy social harmony, and social harmony among humans is a priority of Confucian philosophy. Observation of human behavior, including conflicts among nations and individuals, suggested that limitless self-interest was not desirable within the social structure they envisioned. Nations raided other countries in search of "bounty," and individuals sometimes deceived others or drove themselves and others to bankruptcy to satisfy self-interested goals. Mencius warned, "If all from the top to bottom struggle against each other for profit, the country will be in chaos" (*Mencius*, chapter I). In short, early scholars felt that large gaps between "haves" and "have-nots" could damage the ties that hold society together.

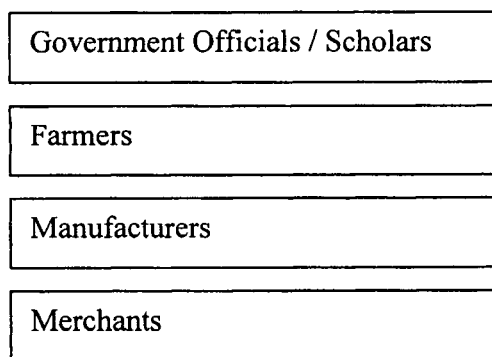
Based on this insight, Confucianism intentionally put a low value on profit-seeking activities and encouraged people to devote themselves to social justice. Confucius compared two types of persons: an ideal person ("superior person") and a humble person ("inferior person"). Most of Confucius' teachings were aimed at leading people to be

⁶ The event happened in 213 B.C. Practical books on medicine, divination, agriculture, and forestry were exempt from destruction, however, and one copy of each, kept in the Imperial Library, was saved. The ban on books was lifted in 191 B.C., after the Qin was replaced by the Han Dynasty.

superior persons. He taught, “The superior person is aware of justice, the inferior person is aware of profit” (*Analects*, chapter IV-16).

The Confucian job hierarchy reflects this anti-materialist stance. In traditional East Asian society, Confucianism ranked government and education higher than agriculture. Crafts followed agriculture, and at the bottom of the scale was commerce. In the Chosun Dynasty (1392-1910 A.D.), the job hierarchy was linked to hereditary social strata.

Figure 2 Confucian Job Hierarchy



Why did Confucianism disdain economic activities? Confucius did not deny that people want to be better-off. To the contrary, he acknowledged that it is an instinctive human desire to live luxuriously with nice clothing and delicious foods in a large house. However, he taught the importance of making money in the right manner, saying, “Wealth and honor are what all persons desire, but unless they are acquired in the right way, no one should take them” (*Analects*, chapter IV-5).

Concentrations of wealth were a cause for concern because of fears that economic power could control all values and that wealth could buy everything, even social prestige and political authority. Confucianism tried to constrain merchants and commercial power by balancing the power of wealth with social prestige while maintaining the balance between social justice and economic prosperity. In order to hold economic power in check, it established a social hierarchy such that people would show respect for those who devoted

themselves to social justice rather than economic wealth by conferring greater prestige on scholars and government officers than on manufacturers and merchants.

Historically land, the basic input of an agricultural society, and wealth had become concentrated under the control of a few rich persons. A well-known cautionary tale is that of a rich merchant, Lu Bu-Wei (unknown-235 B.C.). Lu became acquainted with a royal family and used his wealth to ingratiate himself with the family and advance his own interests. Lu used his wealth to support Zhung Xing, a member of the royal family who had not originally been designated as successor to the throne. Lu supported him financially to build strong relationships and maneuvered to win favors with luxurious presents. Zhung Xing eventually ascended to the throne and nominated Lu as prime minister. Lu managed to accumulate not only wealth but also political power, daring to challenge royal authority and influence the successor to the throne.⁷ Confucian scholars frequently cited this historical case as an example of the arbitrariness and dangers of economic power. Over time, this ideological bias led many East Asians to look down on profit-seeking activities. In modern society, the class system and job hierarchy have disappeared, but the prejudice regarding jobs endured for a long time. It is no wonder that talented young persons were reluctant to enter the business world until the last few years.

Worldwide, diverse patterns of life and thinking have developed in different regions. The characteristics of East Asia's cultural space can be summarized by cooperativism/collectivism, moralism, and spiritualism, compared with the West's individualism, legalism, and materialism. Analysis of the historical and philosophical basis of East Asia's culture provides insights into the principles of East Asian development.

⁷ Lu's support even extended to relinquishing his concubine to the king. According to rumor, the concubine was pregnant and so Prince Cheng, a future emperor of the Qin Dynasty, was actual Lu's son.

III. Principles of East Asia's Dynamic Development Pattern

East Asian societies have evolved over more than 2 millennia, taking different roads to progress. That is why East Asia is sometimes described as heterogeneous. What are the principles of East Asia's pattern of dynamic development? In the West, the principles of markets, private property, competition, and democracy have prevailed and now dominate social momentum. But East Asia's traditional approach has been different. Many scholars assert that Confucianism has shaped East Asia's way of life, which is true. However, the region's history and development is more complex and reflects a variety of influences. Confucianism alone is not sufficient to explain East Asia, and a deeper exploration of the region's history and philosophies is important to understanding East Asia and differences from the western way of thinking.

Philosophical Foundations

I Ching (or Yi Jing), *The Book of Changes*, describes the principles of the universe using 64 hexagrams based on the theory of Yin-Yang and Five Elements. To some, this book is considered an inspired textbook, as if dictated by mysterious oracles. The I Ching is one of the key books of classic Confucianism as well as a main theoretical part of Taoism. The Yin-Yang school of thought was a separate philosophy, along with Confucianism and Taoism, during the Spring and Autumn period (722-481 BC).⁸ Despite their rivalry, both Confucianists and Taoists accepted the Yin-Yang theory, perhaps because the Yin-Yang theory provides a theoretical tool to explain universal laws. Therefore, any exploration of the East Asian approach needs to start from I Ching.

Balance of Yin and Yang

East Asians have believed that the basic unit of universe consists of two opposite aspects, Yin and Yang, literally meaning "shaded" and "sunny" respectively, and that their movement can explain all universal principles. Yin and Yang have usually been

⁸ The Hundred Schools of Thought grew up during the Spring and Autumn Period (722-481 BC.). Si-Ma Qian (145-86 BC), a famous ancient historian, identified six major schools -- Yin-Yang School, School of Names, Mohism, Legalist School, Taoism, and Confucianism -- among hundreds of schools of philosophy in his comprehensive history of China.

categorized by their characteristics and functions in order to understand the patterns of nature and conditions of human life. Yin represents earth, female, and night, while Yang indicates heaven, male, and day. Anything cold, dark, moist, and heavy is Yin, whereas anything warm, bright, dry, and light is Yang. The quiescent and inwardly directed are Yin, whereas the hyperactive and outward directed are Yang (see Table 2).

Table 2 General Characteristics of Yin and Yang

Yin	Yang
Earth	Heaven
Female	Male
Night	Day
Dark	Bright
Cold	Warm
Moist	Dry
Heavy	Light
Fall and Winter	Spring and Summer
Receptive	Active
Inward	Outward

The notion of Yin and Yang has some important properties. First, it is a pair which are opposite and interdependent. Yin and Yang compete against each other but are complementary at the same time. Therefore, Yin cannot exist without Yang, nor Yang without Yin. They are symbolized by two opposite parts, often black and white or red and blue. Sometimes Yin is thought to include unfavorable aspects, like moist and dark, but its existence is important. For example, day and night correspond to Yang and Yin respectively, and a creature cannot live without night, even if it would prefer to enjoy only day.

Second, it is a dynamic concept, not stationary. Yin and Yang constantly change. As night fades, the day dawns, and as the day ends, the night begins. Similarly, Yin becomes Yang and Yang becomes Yin. They are represented by a moving circle with the shape of a whirlpool, divided into two sections.

Third, it is a relative concept, not an absolute one, because Yin and Yang are evolving continuously. To emphasize the possibility of change and even reversal, a small piece of Yin is considered to be within Yang, and small piece of Yang within Yin. For example, even in the depths of a cold winter, seeds lay waiting to sprout in the spring, just as Yang waits within Yin for its turn. But most natures do not change in the short-term, and scholars defined things as Yin or Yang for convenience.

Fourth, the balance between Yin and Yang is very important. For example, traditional East Asian doctors believe that sickness results from an imbalance between Yin and Yang. They determine which part is insufficient and supplement it. Society achieves balance with checks and balances to prevent any group or power from dominating. The balance between Yin and Yang should be achieved by harmonization between the two forces rather than by conflict. This approach is in contrast to the Western tradition of competition based on Hegel's Dialectic Progress in which a concept gives rise to its opposite, and as a result of this conflict a third view, the synthesis, arises.

The Yin-Yang theory can be applied to a variety of fields. One example is medicine. Although each organ has elements of both Yin and Yang, East Asia's traditional medicine classifies organs of the body as Yin or Yang according to their predominant properties. Organs that are filled up and function to secrete something useful (such as the heart, liver, spleen, lung, and kidney) are Yin. Organs that are empty and function to absorb something useful from outside (such as the small intestine, large intestine, stomach, gall-bladder, urinary bladder, and sanjiao⁹) are Yang. The symptoms of sickness also can be classified: chill and a slow pulse are symptoms of Yin, while fever and a fast pulse are symptoms of Yang.

The Five Elements

The theory of Five Elements ("Wu Xing") subdivides Yin and Yang into five categories of Metal, Water, Wood, Fire, and Earth in order to analyze universal laws in greater

⁹ The sanjiao is an unrecognized organ in the Western medicine. It consists of three parts and functions to govern the invisible energy flow.

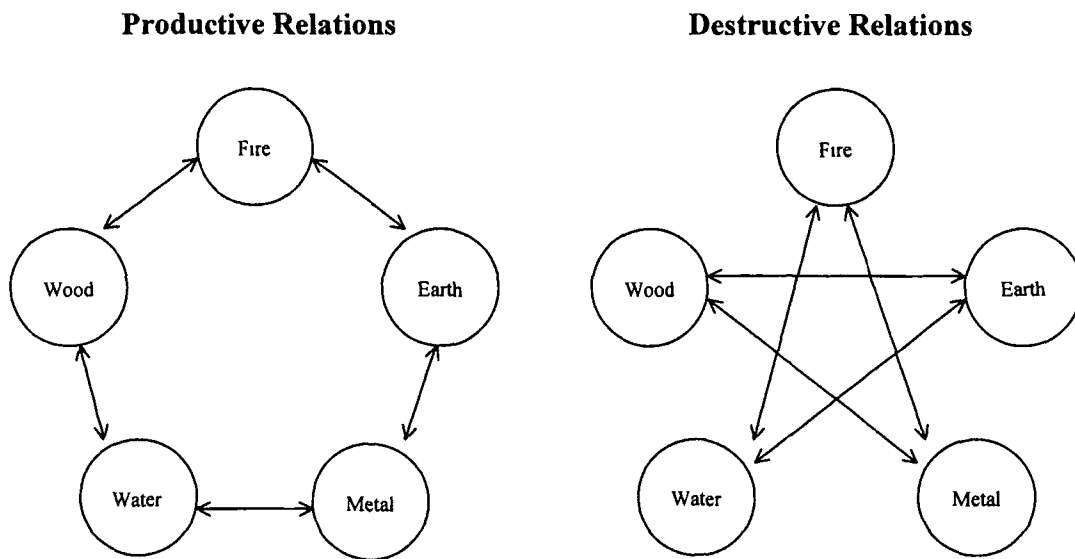
detail. The theory includes three important aspects. First, it provides a tool for grouping objects or phenomena by their characteristics. The theory does not mean to suggest that the universe consists of only five elements, but the ancient East Asians found it useful to focus on five categories to investigate the correspondence and cycle of things or phenomena. They used the metaphors of nature to describe abstract and intangible universal laws, including individuals' fortunes. The image of each element intuitively suggests its characteristic properties. For example, summer, hot, south, red, and pleasure have a character of fire, whereas winter, cold, north, black, and fear have a character of water (see Table 3).

Table 3 Five Elements

	Wood	Fire	Earth	Metal	Water
Season	Spring	Summer	Late Summer	Autumn	Winter
Weather	Windy	Hot	Humidity	Dry	Cold
Direction	East	South	Center	West	North
Color	Green	Red	Yellow	White	Black
Feeling	Angry	Pleasure	Sexual	Melancholy	Fear

A second function of the Five Elements is to provide insight into the interactions of objects and phenomena. The elements describe two relationships: productive and destructive. The productive relations, which positively contribute to each other's growth, can be found between wood and fire, fire and earth, earth and metal, and metal and water. Wood burns and produces fire. Fire leaves ashes that build the earth. Earth condenses down into metal. Metal liquefies into flowing liquid water. Water flows into wood to nourish it. Destructive relationships, which negatively disturb each other's development, can happen between wood and metal, wood and earth, fire and metal, fire and water, and earth and water. Wood devastates the earth by taking its nutrients. Fire destroys metal by melting it. Earth disturbs water by blocking its flow. Metal destroys wood by cutting it down, and Water hurts fire by putting out it. In a traditional Five Elements diagram, the productive relations are next to each other, in the outer ring, and the destructive relationships are across from each other, in the inner pentagram (see Figure 3).

Figure 3 Productive and Destructives Relations



Third, the Five Elements present an orderly cycle of changes. Wood, fire, earth, metal and water incessantly rotate like the cycle of the four seasons. Wood, like spring, symbolizes growth. Nature awakens from the stagnation of winter and begins its activity. Fire represents summer, the peak time of growth. Flowers bloom and the trees are covered with thick leaves. Earth corresponds to late summer. Although the energy flow has already changed, people do not notice the change and stay in an illusion of summer. Metal represents autumn when nature halts additional growth and concentrates on ripening and the harvest. Water stands for the cold and stagnant season of winter, when all growth stops and nature prepares for the next stage and relies on stored potential. The theory of the Five Elements shows that all is changing and follows a cycle through five phases.

The Eight Trigrams and 64 Hexagrams

I Ching tried to interpret complicated, real-life human processes starting from the simplest Yin-Yang dichotomy. In its Appendix, *I Ching* states, “In the Changes there is the Supreme Ultimate (“Tai Ji”), which produced the two Forms (Yin and Yang). These Two Forms produced the Eight Trigrams (“Ba Gua”). The Eight Trigrams serve to

determine good and bad fortune (for human affairs), and from this good and bad fortune spring the great activities (of human life).”

The I Ching interprets 64 Hexagrams with abstract and condensed metaphors. The 64 Hexagrams, variations on eight primary trigrams, are a further classification of the Yin-Yang and Five Elements theories. Each Trigram consists of three lines; each line can be either straight or broken. A straight line stands for Yang, and a broken line stands for Yin. Eight Yin-Yang combinations result from the trigrams, symbolizing each of the eight natural elements -- heaven, lake, fire, thunder, wind, water, mountain, and earth. The ancient East Asians combined the trigrams with a variety of images such as animals, members of the family, numbers, parts of the body, compass directions, seasons of the years, etc. (see Table 4). The 64 Hexagrams come from combinations of two trigram arrangements.

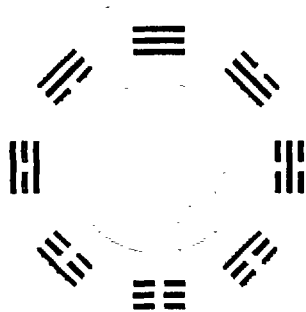
Table 4 The Eight Trigrams

Image	Structure	Character	Essence	Family
Heaven	Awareness	Creative, Strength, Force	Yang Willing	Father
Lake	Feel	Pleasure, Serene	Yin Feeling	Youngest daughter
Fire	Think	Cling together, Radiance, Attaching	Yin Thinking	Middle daughter
Thunder	Spirit	Exciting, Shaking	Yang Sensing	Eldest son
Wind	Sense	Soft, Gentleness, Nourishing	Yin Sensing	Eldest daughter
Water	Soul	Danger, Courage, Abyss	Yang Thinking	Middle son
Mountain	Body	Stillness	Yang Feeling	Youngest son
Earth	Will	Receptive	Yin Willing	Mother

The Trigrams and Hexagrams are essentially representations of processes that occur in human life and nature. By combining symbols that reflect dynamic elements in nature and the human process, the ancient East Asians sought to understand and predict patterns, cycles, and polarities in nature and human development. Applying these symbols to

individual development and studying the relationships of the trigrams in these configurations is thought to provide insights into past and future events. Interpretation of the trigram arrangements and consideration of the natural development process can allow man to adapt and fit smoothly into the patterns of nature and seek balance within cycles of growth.

Figure 4 Image of the Universe - Yin and Yang Surrounded by Eight Trigrams¹⁰



East Asian Economic Thinking

East Asians have applied the Yin-Yang and Five Elements theories to a variety of areas. East Asian medicine includes traditional therapies such as herbal medicine, acupuncture, moxibustion, and therapeutic massage. Although such alternative medicine does not meet the scientific demands of modern biomedicine, it can help improve human health by complementing conventional treatments.

Characteristics of the East Asian Approach

Similarly, East Asians' economic thinking has characteristics that can complement orthodox economics. First, the East Asians developed a human-oriented approach. The mainstream orthodox economics that originated in England mainly considers issues of the price and quantity of goods. It is essentially a materialistic approach that seeks a solution that maximizes utility under the limitation of resources, stressing economic efficiency

¹⁰ Korea's flag contains a version of this image, symbolizing the Universe that originated from the ideas of I Ching. The Mongolian flag also has a symbol of yin and yang.

and productivity. Measurable variables are preferred for analysis in order to provide a clear, logical solution. The East Asian approach, however, focuses on individuals' choices to maximize their happiness. People face difficult decisions every moment in their lives -- whom to marry, where to live, and where to work. Orthodox economics generally limits itself to economic life – how much to produce, what price to charge, where to invest, which stock to buy, when to buy and sell, and so on. Most personal choices are largely out of the scope of orthodox economics, because its knowledge, primarily information on costs and benefits, contributes only partially to individuals' actual choices. In actuality, people consider a wide range factors in their decision-making, including their own personality and the reactions of others, in addition to the pecuniary aspects of the decision.

Second, the East Asian approach incorporates explicit consideration of groupings of human natures, personal attitudes, and behaviors. Decisions depend considerably on individuals' personalities. Some traits are inherited from parents, and some are formed later through education. Every person has his/her own personality, and the best decision to insure maximum happiness will differ with the person. Although lawyers and medical

Table 5 The Five Elements

Five Elements	Behavior Patterns
Wood	Creative, hard working, decisive, and directing. Likes to be in control and to keep busy.
Fire	Emotional, communicative, and articulate. Tends to be very sociable, loving, and can be quite spiritual in outlook.
Earth	Sympathetic, considerate, and supportive. Tends to be an "Earth Mother" type, with focus on caring for others.
Metal	Well-organized, neat, methodical, and meticulous. Tends to be very self-contained and does not express emotion much.
Water	Flexible, well-motivated, ambitious. Can also tend to be lazy and "go with the flow" too much.

Source: Liechti (1998)

doctors generally enjoy considerable wealth, a person should not enter those fields if they are not compatible with his/her personality. If the person is not in harmony with the field, he/she will not succeed or find satisfaction. Similarly, even if investments in venture capital tend to have high yields, they are not the best choice for persons who are not comfortable with that level of risk.

Third, East Asians follow a relative approach to economic decisions, changing according to the other party. When starting a business, one important decision is whom to deal with and whom to take as partners. For this purpose the Five Elements theory categorizes humans natures and analyzes their relationships. If one person's personality or the business's prosperity is close to the nature of wood, partners with the natures of fire or water would be easy to work with while the possibility of troubles increases in relationships with those with the nature of earth or metal.

Fourth, the East Asian way of thinking emphasizes a dynamic approach. Actual situations change every moment. People's perceptions are dynamic, not static. When East Asians make important decisions, they try to trace patterns of change and consider that all conditions are frequently changing as time passes. The Five Elements theory applies in these circumstances as well. For example, parents consider the future job market when their children choose their specialty. Just one generation ago, coal and steel sectors were leading industries with good jobs and high wages, but now they are declining industries. Forecasting the future is not easy, but it is very important when making current decisions. Using the Five Elements theory, if it is determined that the present is in the wood stage, it is easy to predict that the next stages will be consecutively fire, earth and so on.

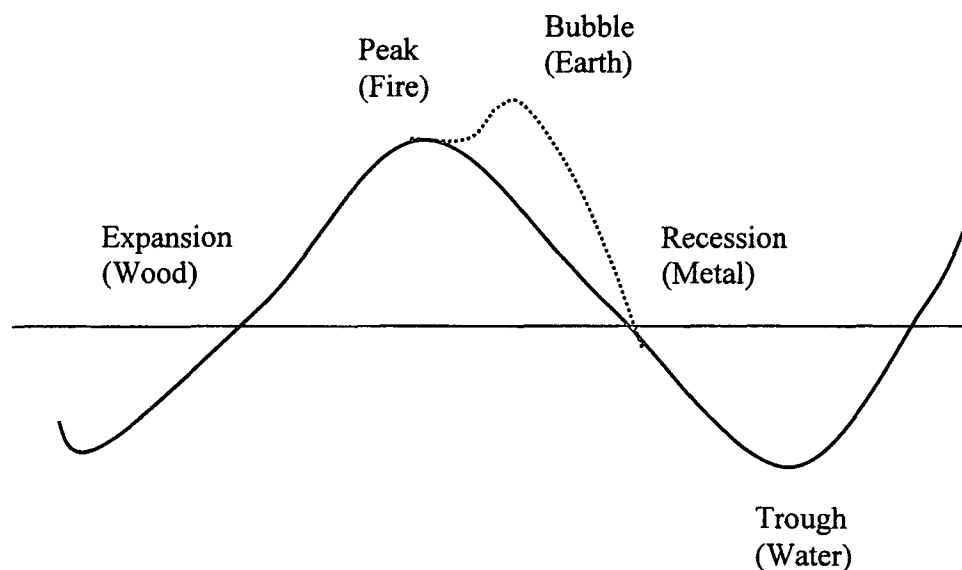
Application to Economics and Business

The Yin-Yang theory can be applied to basic supply and demand theory. The supply curve corresponds to Yang and the demand curve corresponds to Yin, because the supply curve has a positive relationship with price while demand has a negative relationship. The point where the supply and demand curves cross defines an equilibrium, like the

balance between Yin and Yang. There is a difference from orthodox economics in that Yin-Yang theorists think of supply and demand as dynamic and consider the possibility that their natures might change. That is, although supply curve generally slopes upward from left to right, over time the curve could be reversed. In the stock market, investor behaviors change frequently over time; if Yang dominates it leads to a bullish market while Yin leads to a bearish market. The Five Elements theory can also be applied to personnel characteristics, job priorities, and job references. Human behavior patterns are related to job success and so the company's prosperity.

Economists have found that a functioning economy exhibits cyclical movement. Business cycle theory explains this phenomenon as a repeating pattern of four phases -- expansion, peak, recession, and trough. An expansion is characterized by positive GDP growth and lasts until the peak is reached and GDP growth declines. A recession is period of negative growth as the economy drops from the peak down to the trough and another four-phase cycle begins again. The cycle of the Five Elements coincides with the business cycle. The only difference between the East Asian approach and orthodox economic analysis is an additional stage, a bubble, between expansion and recession. In

Figure 5 Four-phase Business Cycle and Five Element Cycle



the East Asian analysis, although actual economic momentum has already passed its peak, people do not recognize it and, believing that that the expansion will continue, they do not reduce the rate of spending and investment. Bubbles in stock and real estates prices are examples.

The East Asian approach uses a binary code, Yin and Yang, to simplify but then builds that code into a more complex framework. Actual economic conditions are much more complicated than economic theories and include some intangible considerations. The 64 Hexagrams help to examine 6 conditions at the same time, and the Eight Trigrams consider 3 conditions at the same time. The East Asian approach includes efforts to consider the relationships between visible phenomena and intangible factors, both physical attributes and behavior patterns, in order to help find the best choice. The approach stresses the dynamic nature of the world and emphasizes cyclic changes. The Five Elements allow items, persons, and phenomena to be categorized in order to investigate relationships and stages of change. The relative aspect of the East Asian approach whereby a decision depends on the other party and that party's reaction is close to modern game theory.

Basic Conditions for the East Asian Approach

Over thousands of years, East Asia has formed its own social system based on these principles. Its characteristics can be summarized as business-government cooperation, cooperation within interrelated enterprises, hierarchical order based on seniority, attitudes of hard work and thrift, government leadership, respect for education, and so on. The social system has evolved to be suited to its cultural space of cooperativism/collectivism, moralism, and spiritualism. East Asian society adopted rule by moral principles and a hierarchical system to promote social order in human relationships. The Confucian style social order is backed by moral duty and a well-developed and decentralized education system to re-enforce the ethics and obligations of the social order. Ethics training focuses on exploring the good side of human nature, and the government has the authority to act as coordinator to achieve balance between Yin and Yang. To check the potential for

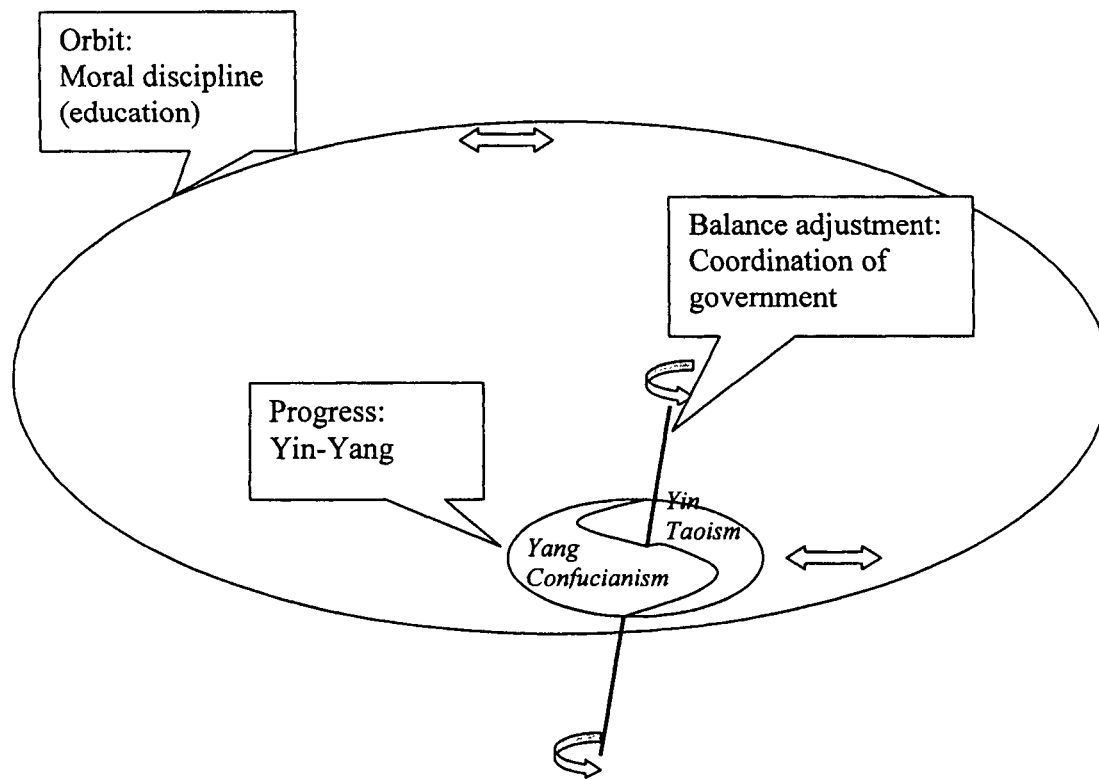
abuse of power by the government, high-ranking officials are expected to exhibit high moral standards and are selected through an open competition system.

Nevertheless, the East Asian system does not always run well. Three conditions seem to be important for it to function well. First, a “cultural tolerance system” is needed to introduce new ideas easily. This requires an open society and freedom of thought. In the case of East Asia, the Yin and Yang theory contributed to this development. The two main streams of philosophy in East Asia are Confucianism and Taoism. Confucianism sometimes seems very impractical and extremely conservative -- for example, Mencius taught that when parents die, their son should build a cottage near the grave, give up working, and mourn for three years. But because Taoism is very liberal, East Asian society is able to keep a philosophical balance between conservatism and liberalism. Confucianism has dominated China, Korea, Japan, and Vietnam for a long time as a major way of thinking (Yang), while Taoism has held an opposite and complementary role (Yin). There is an old Chinese saying, “In the office a Confucian, in retirement a Taoist” (Osborne and Loom, 1996). The social system is open to the introduction of new ideas due to its concepts of Yin and Taoism’s “Wu Wei” notion, and respect for education and liberal academic circumstances encourage study and debate between old and new ideas.

Second, a “coordinating mechanism” is required to bring about harmonization. In East Asia, the government carries out the role of coordinator. The government should be strong but small, and the ruler must be endowed with high moral standards and wisdom. The two opposites, Yin and Yang, generally balance themselves, but if that is not possible or conflicts occurs, the ruler intervenes as an arbitrator. The ruler depends on the doctrine of the golden mean, which is taught in *The Zhong Yong*, one of the Confucian classics. In addition, Taoism teaches that a good government should not be noticed by the people who simply follow nature. The leader who shares his good nature mediates disputes and makes new rules based on the doctrine of the Mean (*Zhong Yong*). Well- disciplined people, enlightened through moral education, do their best to observe the rules (*Da xue*).

Third, a striving for the “improvement of human nature” leads to respect for opposite ways of life and thought. The dominant subject in Confucius’ teachings is how to become a good person by improving one’s own character. Confucius’ main method for attaining these virtues is education. Confucius said, “In education there should be no discrimination” (Analects, chapter 15-39). The goal of improved character is not attained without effort, though.

Figure 6 Principles of East Asia’s Dynamic Development



While the West views historical progress as a pattern of conflict, resolution, and synthesis, the East Asian view is based on the Yin and Yang theory's approach of balance and harmonization. In each view, the universe evolves through the interactions of opposing forces. The West interprets the forces to be in conflict, and the forces compete to reach a new set of thoughts, a synthesis. East Asia considers the forces to be complements that co-exist and balance each other to arrive at harmony. Toynbee, a famous western historian, in his work *A Study of History* emphasized the ability to respond to challenges, whereas Zhang Zi, an eastern philosopher, stressed the ability to accommodate circumstance and not challenge nature. Clearly, the logic that underlies East Asia's pattern of development differs considerably from that which drove development in the West (see Table 6). An understanding of the principles of East Asia's social development and the region's historical and philosophical background provides insights into and an appreciation of East Asia's way of life and the foundations of the East Asian system.

Table 6 Comparison of East Asia and West Development Process

	East Asia	West
Principle of Progress	Yin-Yang	Hegelian dialectic
Balance adjustment	Balance by itself If fails, government coordinates	Check and balance Invisible hand in market
Range of the Orbit	Moral discipline	Legal codes

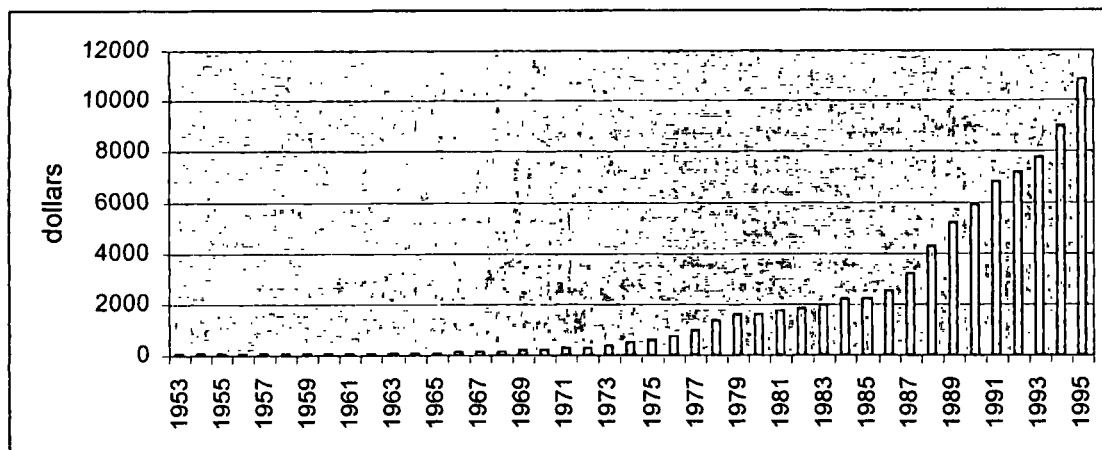
IV. Application to the Korean Economy

The modern development history of East Asia can be interpreted as a process of harmonization between two traditions: East Asia's traditional way (Yang), which is characterized by cooperativism/collectivism, moralism, and spiritualism, and the Western way (Yin) of individualism, legalism, and materialism. As international trade has grown explosively and the global marketplace has become increasingly integrated, East Asian culture and systems have keenly felt the need to assimilate Western traits and have begun to move closer to Western ways in the interest of the country's economic progress. Korea's ups and downs over the past forty years reflect the Yin-Yang principle applied to its economic development.

1960s to 1980s: Miracle on the Han River and Movement from "Spiritualism" toward "Materialism"

Only four decades ago, Korea seemed to be one of a number of hopelessly poor, agricultural countries. The Korean economy has grown tremendously since the 1960s and achieved unprecedented global economic success. Per capita income rose, in a geometric progression, from a meager \$67 in 1953 to \$100 in 1963, \$1,009 in 1977,

Figure 7 Per Capita Income in Korea (1953-1995)



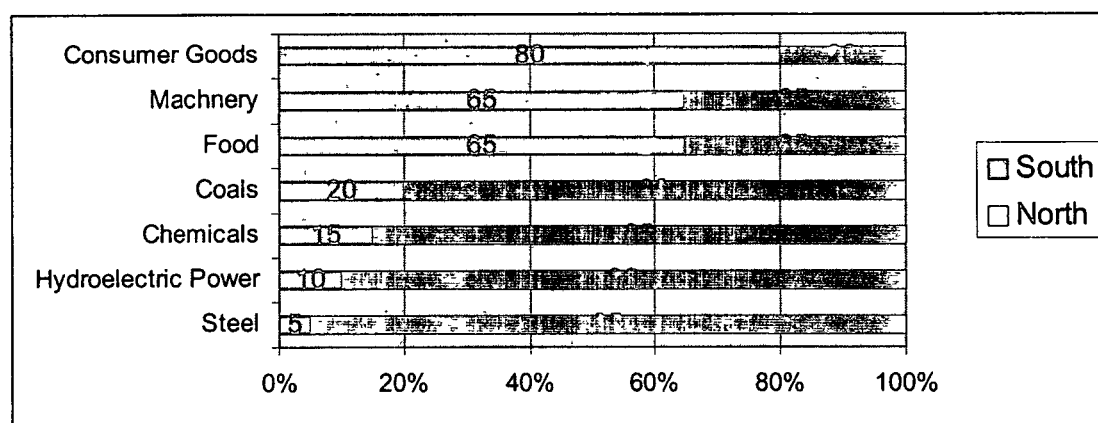
Source: Bank of Korea (BOK) (1988 and 2002) (see Annex 1 and 2)
(1953-1969 per capital GNP, 1970-1995 per capita GDP)

\$5,185 in 1989 and \$10,823 in 1995 (see Figure 7). It has succeeded in transforming itself from a poor agricultural economy into an industrialized nation and has improved the living standard of its population remarkably.

Until the 1960s, Korea was far behind in economic development. Although it had a long and rich cultural heritage, it had suffered a series of consecutive misfortunes from imperialism and the Cold War. Korea, which had adopted an isolationist policy until 1876¹¹ to protect its sovereignty from imperialist invasion, was annexed by Japan in 1910. The Japanese colonial administration managed Korea's economy for the benefit of Japan, so little of the benefits of development belonged to Koreans. For example, in 1942 Koreans controlled only 1.5 percent of the total capital invested in Korean industries (Library of Congress, 1990).

Although Korea achieved liberation from Japan in 1945, the peninsula was divided at the thirty-eighth parallel due to the confrontation between the U.S. and the Soviet Union. The split, which segregated the industrial zones in the north and the agricultural areas in the south (see Figure 8), dealt a severe blow to Korea's economy (Lee 1984). Moreover, the Korean War (1950-53), sparked by North Korea's attack on the south in June 1950,

Figure 8 Comparison of Production in South and North Korea (1945)



Source: Lee (1984).

¹¹ Japan compelled Korea, under threat of military action, to agree to a treaty opening its ports for international trade.

totally devastated the economic base. For example, the shipbuilding industry lost 80 percent of its production facilities and the spinning and weaving industry lost 50 percent during the war period (Choi, 1976).

After an armistice agreement was signed in 1953, the U.S. and international organizations assisted in Korea's reconstruction. Korea was heavily dependent on foreign assistance; foreign aid made up 58.4 percent of the government's budget in 1956. Although international aid helped the country recover from the war's destruction, Korea did not escape from the vicious circle of poverty. Due to the unstable economic and political situation, a civilian revolution occurred in 1960 and was followed by a military-led coup in 1961. General Park Jung-Hee resigned from the military to become President.

Economic development became a top national issue under the Park Jung-Hee government launched in 1962. At that time, two fundamental problems contributed to Korea's poverty: the lack of resources to develop and the lack of a popular will to progress. Korea had no capital, no technological know-how, no oil, but considerable war damage. To overcome the resources gap, Korea would have to import all -- capital, technology, materials, and even the market economy ideology. Korea undertook an export-led policy, rather than an import substitution policy, with the ultimate objective of ensuring its ability to import what it needed to advance.

One of the biggest hurdles to overcome in advancing economic development was changing Korea's public consciousness. Traditional Korean culture emphasized spiritualism, and Koreans traditionally had not focused on earning money because conservative Confucian philosophy emphasized moral duty and spiritual values rather than practical and economic values. Confucianists disdained economic activities, except agriculture, and looked down on those who pursued profits as "inferior persons." For example, a well-known children's song that was included in the elementary school curriculum implicitly endorsed the idea of anti-materialism. The song told of a famous general, Choi Young (1316-1388), who devoted himself to protecting the nation and always honored his father's advice that "even if he found a gold nugget, he should

consider it a worthless stone.” Understandably, gifted persons hesitated to engage in commercial and manufacturing activities. Traditional values strove to suppress desire for property, and an extreme version of Confucian thought even led to a class of “honorable idleness,” persons who spent their entire lives reading books without engaging in any productive activities.

In order to stress the importance of economic activities, the government implemented a program to re-shape public opinion. Beginning in 1968, all students were compelled to memorize the National Charter of Education, in which “efficiency and substance” was emphasized, stating “We were born on a historical mission of nation restoration...respect for efficiency and substance, and inherit the tradition of mutual aid rooted in love and esteem, and belief...”¹² In 1972 President Park launched a “Saemaul-Undong,” a new community movement, to change public attitudes. Its slogan, “Let’s try to be better-off” (Jal-sara-bose), expressed the essence of the movement. Koreans listened almost every day to the theme song of “Let’s try to be better-off” over the radio, TV, and loud speakers mounted on public buildings.

A campaign to improve the image of business activities was also implemented. In the early stages of economic development, women played a decisive role in the cultural transition by working in factories. The success of labor-intensive industries such as textiles, wigs, footwear, and apparel, which prospered due to the diligence of women workers, opened the path of industrial development for all of Korea. At that time, many men hesitated to work in factories and shops because of the perception that such jobs were “humble.” Women, though, who were relatively less defined in Confucianism, could more easily overcome the “face saving” culture. Throughout Korea, often the word “business” was substituted for the more traditional “merchandise.” In 1962 the Seoul National University established the Department of Business Administration to succeed the Department of Merchandise that had opened in 1946. In 1968 the Federation of Korean Industries was organized to improve the profile and status of business.

¹² Through this sentence, Korea indicated its intention to introduce practical values but still respect traditional collectivist values such as cooperation.

The government also sought to provide opportunities for business to succeed. Historically, the preferred ways of making money were to cultivate rice or to import goods. Rice was the staple food for Koreans. Demand exceeded supply in such difficult times, particularly in bad years for the rice crop. About half the population relied on agriculture, mainly rice farming. The government introduced a price control system for rice in the name of price stability, but actually the policy discouraged rice production by limiting rice producers' profits. Concurrently, campaigns to encourage mixing rice consumption with barley or beans and the use of flour for food were introduced to reduce rice demand. The government also introduced an export promotion policy. Commodities were always in short supply and imported products sold quickly. Because of the lack of foreign currency, especially U.S. dollars, it was crucial for businesses to secure foreign currency. The government adopted an export-import linkage policy to encourage exports by granting import privileges to business that exported goods.¹³ The government provided preferred financing with advantageous terms to export companies.

Korea's first five-year economic development plan was introduced in 1962. Although many economists criticized the strong role of the government because it could hamper the emergence of a free market economy, most Koreans were not uncomfortable with the role of government as a "benevolent coordinator." In the early stages of economic development, the Korean government encouraged business activities by showing entrepreneurs where to find new business opportunities through "strategic industries." The government borrowed foreign capital and redistributed it to private companies through banks. Businessmen who made investments in preferred industries received public support and subsidies.

During this period, several pioneering Korean entrepreneurs emerged. Lee Byung-Chul, founder of Samsung Group, and Chung Ju-Young, founder of Hyundai Group, are

¹³ In the 1950s, the volume of private companies' exports was so small that most dollars came from a public enterprise that exported tungsten ore. Because foreign currency was needed for import businesses, foreign currency was distributed by public auction. That system, though, was plagued by many scandals, and a lottery system was introduced in the interest of and to emphasize fairness.

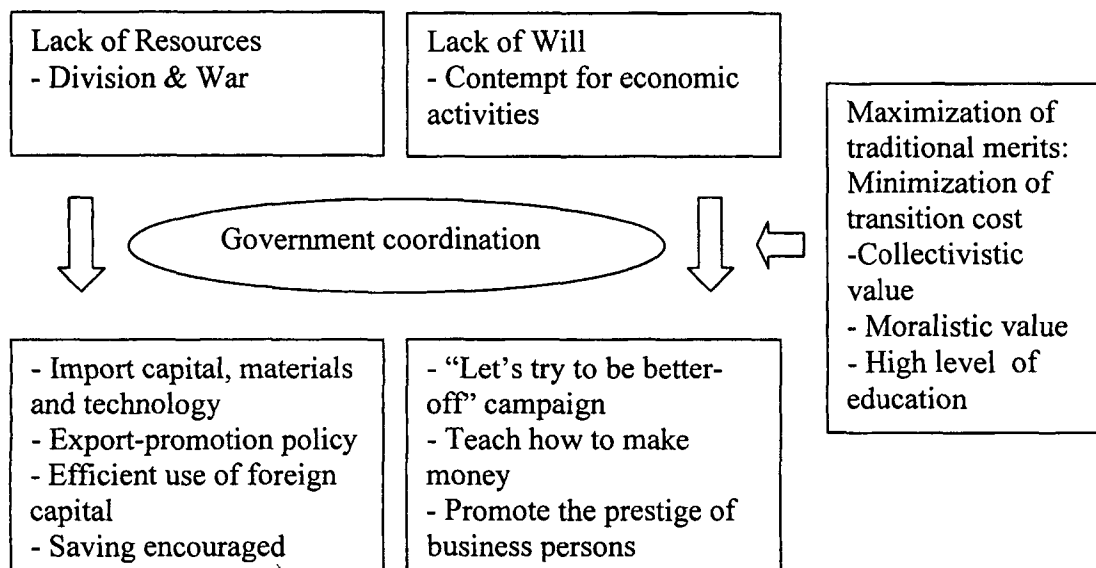
examples. Lee Byung-Chul established the Samsung Corporation as a trading firm in 1948 and went on to establish Cheil Sugar Manufacturing Co. in 1953, Cheil Synthetic Fiber Co. in 1973, and Samsung Electronics in 1969 to produce home electronics. Samsung first jumped into the semiconductor market in the 1980s, and Samsung Electronics has become the world's leader in DRAM chips. As the leading growth industries varied, Korean businesses shifted their core businesses from labor-intensive light industries to heavy and high-tech industries. In addition, young, well-educated laborers worked diligently, infused with the "Can do" spirit.

Although Korea generally followed the principles of a market economy and emphasized foreign trade, the government sometimes intervened in the market. Perhaps because the market system was not fully developed and the country faced serious external threats and so could not afford a tumultuous adjustment process, such behavior was nearly inevitable. The success story of Pohang Iron and Steel Company (POSCO) was an example of such direct government intervention. At the beginning of 1960, the Korean government was eager to have a modern steel mill with a capacity of 600 thousand tons, although domestic demand was only 300 thousand tons. When the government asked the U.S. and international organizations for financial assistance, the proposal was firmly rejected. Outside financing organizations were concerned about over-capacity and the lack of experience in the steel industry. The Japanese government advised that a capacity of at least 1 million tons was required for economic efficiency. In 1968 the government decided to build the plant as a public company using its own money from the Fund for Korea's Property Claims against Japan. Five years later POSCO began production with an annual capacity of 1.03 million tons. To stimulate demand, the government encouraged other industries such as construction, shipbuilding, and automobile manufacturing. By 2000 POSCO had grown into a global industry leader, and in 2002 POSCO was the largest steel producer in the world, producing 27.48 million tons annually. Despite reasonable anxiety regarding government intervention in the project, it succeeded because the Korean government played the role of coordinator in the traditional East Asian development model.

It is widely acknowledged that Korea's policies -- adoption of a market economy, export oriented policies, efficient use of foreign capital, high levels of education, flexible macroeconomic policy, and catch-up strategies for advanced technology -- contributed to Korea's economic development. But orthodox economics remained uncomfortable with the role of government in initiating such policies and the Asian-style cooperative management that emphasizes a strong partnership between government and the private sector. The East Asian development model discussed above, though, provides insights to solve the puzzle. In its traditional role as coordinator, the government intentionally introduced a market system and worked to introduce more materialistic values into Korea's traditional Confucian agricultural society.

The main causes of poverty in the 1950s could be largely attributed to shortages of resources and cultural conflicts (see Figure 9). First, in order to address the shortage of resources, Korea imported capital, materials, and technology. To obtain dollars to finance imports, it aggressively promoted export industries. Korea tried to use foreign capital efficiently by investing in building factories and infrastructure, and it

Figure 9 Causes of Poverty and their Prescription



encouraged people to save to supply domestic funds for investment. Second, the government intentionally tried to alter several aspects of the national culture. Through the “Let’s try to be better-off” campaign and related programs, it stressed the importance of economic activities to the national well-being. To minimize the costs of this cultural transition and maximize the benefits of the traditional culture, Korea overall maintained its collectivist and moralistic tendencies. In short, Korea’s economic miracle during the 1960s through 1980s reflected efforts to achieve a new balance, a new harmony, between “spiritualism” (Yang) and “materialism” (Yin) on the economic axis as the country shifted from spiritualism toward materialism.

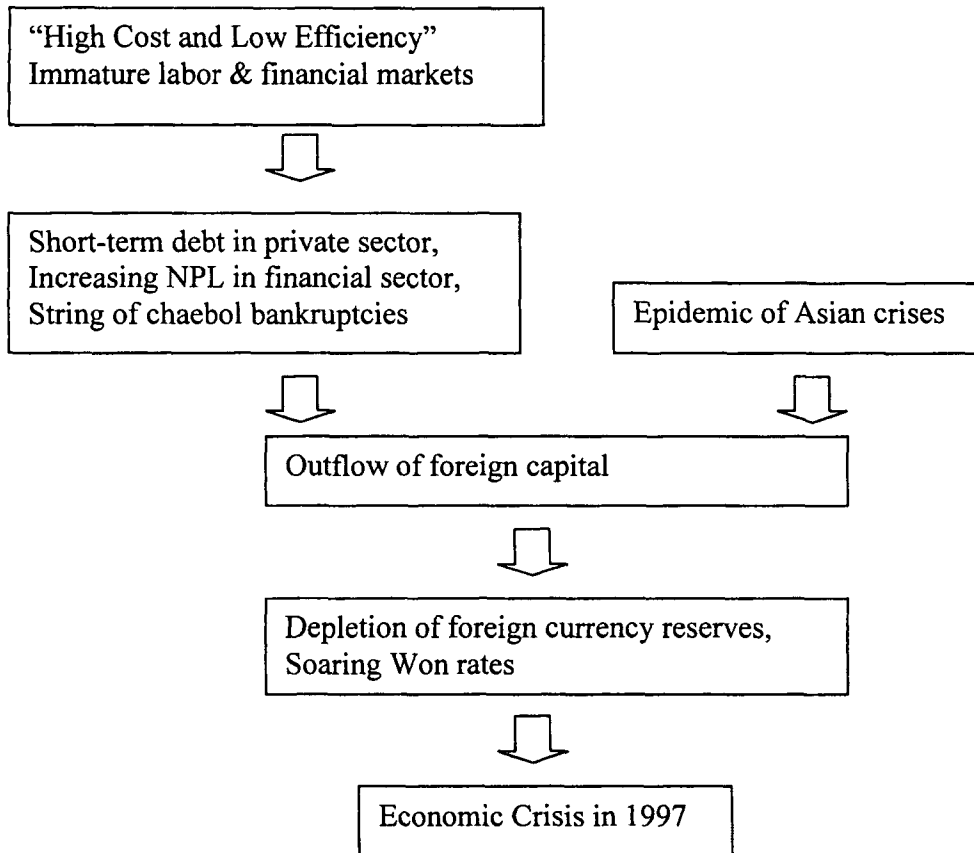
1987-1997: Disharmony between “Cooperativism/Collectivism” and “Individualism” and Prelude to Crisis

In 1997 an unprecedented financial crisis hit the Korean economy. The crisis officially began on November 21 when the Korean government requested assistance from the International Monetary Fund (IMF). The crisis reflected a number of vulnerabilities. A sudden outflow of foreign currency brought about the depletion of foreign currency reserves and skyrocketing exchange rates. The deterioration of financial institutions’ balance sheets, high levels of short-term debt in the private sector, and a string of bankruptcies among chaebols added to the instability caused by a string of economic crises among neighboring countries to seriously undermine investors’ confidence. Many of the country’s fundamental problems were attributed to Korea’s “high cost and low efficiency” structure in the corporate sector that resulted from immature labor and financial markets (see Figure 10).

Korea’s competitive position was adversely affected by events in the late 1980s and early 1990s. Following the end of the Cold War, China, Russia, and the Eastern European countries sought to join the world market. At approximately the same time, U.S. companies improved their productivity due to new technology and flexible market mechanisms. Moreover, funding sources shifted from lending to equities as stock markets gained increasing market power. The world seemingly entered an era of hyper-

competition. Korean companies lost their vitality in the global market due to the declining competitiveness of Korea's labor and financial markets.

Figure 10 Causes of Korea's Financial Crisis



At first examination, the Korean economy looked good for the first half of the 1990s due to the semi-conductor boom. In reality, though, many companies actually suffered from “High Cost and Low Efficiency” -- high labor, financial, land, and transportation costs and relatively low productivity. Beginning at the end of 1980s, Korean wages increased faster than productivity and companies paid high interest rates due to the underdevelopment of the domestic capital market. Korean companies began to lose their competitiveness in the global market, and many companies began to shut down. The

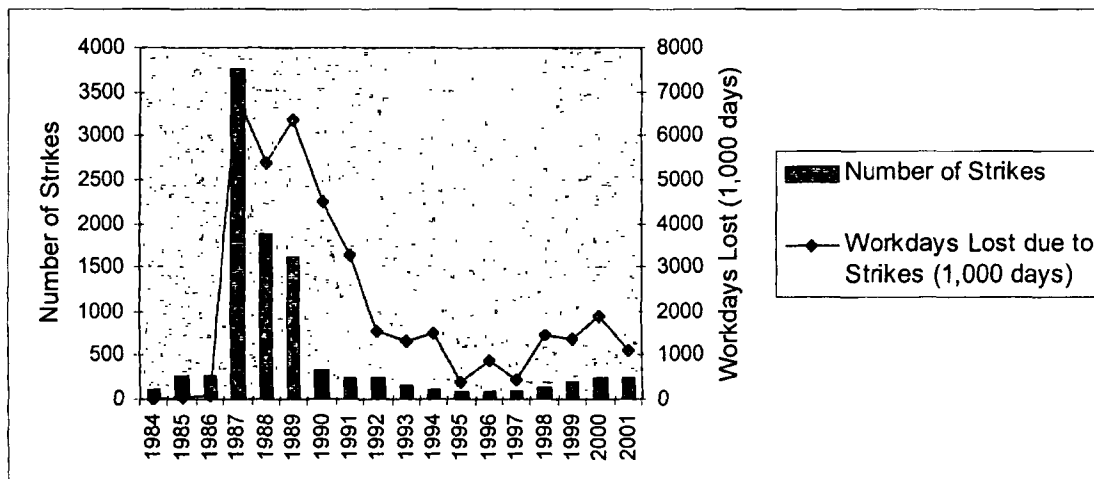
worsening corporate sector performance in turn had a negative impact on banks' balance sheets as non-performing loans increased.

This period saw difficulties in Korea's labor markets. Within the context of the East Asian cultural space model, these troubles reflected a growing imbalance along the social axis, a conflict between traditional cooperativism/collectivism and the individualism of the global marketplace. During the period of rapid growth in the previous few decades, Korea had enjoyed relatively peaceful labor relations. Labor worked hard despite low wages and obeyed managers' orders in keeping with Confucian values and social order. As the economy prospered, however, workers began to appreciate economic incentives and demand pecuniary rewards for their hard work. As Korea moved along the economic axis and shifted toward materialism from spiritualism, the society also needed to adjust along the social axis from cooperativism/collectivism toward individualism. Workers were gradually becoming discontented with the traditional system that compelled individual sacrifice for the greater good, and began to request reasonable compensation for individuals. The Korean labor sector, though, failed to make a smooth transition toward individualism and only truly adjusted after the 1997 crisis.

During the earlier period, the authoritarian government and patriarchal managers had neglected laborers' demands and sometimes repressed labor union activities, so the dissatisfaction of workers did not rise to the surface for a long time. During this period, management dominated and an imbalance developed; the "Yang" of management existed without balancing the "Yin" of laborers until the mid-1980s. In 1987, labor's complaints exploded along with the Democracy movement,¹⁴ and the number of strikes skyrocketed to 3,749 in 1987 from 276 in 1986 (see Figure 11). Workers aggressively demanded their rights and increases in their wages. They demanded not merely better working conditions but also greater democracy. Within a short time, the labor movement dominated the labor market. The imbalance had been reversed and replaced with another imbalance; now "Yin" dominated. Violent strikes prevented constructive labor-management

negotiations, wages increased faster than productivity, and foreign investment companies started to leave Korea.

Figure 11 Strikes and Workdays Lost



Source: Ministry of Labor (MOL) (2002) (see Annex 3).

In 1996 the Korean economy slowed rapidly, and the current account showed a huge deficit. The government was in the process of preparing labor reforms that included the possibility of lay-offs, a dramatic departure from the long-established tradition of lifetime employment. Labor unions and opposition parties opposed the reforms fiercely, and the reform laws were passed in December 1996 in a secret, pre-dawn parliamentary session with only lawmakers who were members of the ruling party attending. The unfair passage touched off nationwide labor protests, and President Kim Young-Sam promised to rewrite the laws in January 1997. The long-term result of this episode was that the government lost the trust of the citizens and so its role as coordinator. Banking system reforms that were underway also were not passed until the financial crisis occurred. The overall result was that the government could no longer serve as benevolent coordinator of the national economic agenda.

¹⁴ Citizens demonstrated against the military-dominated leadership that had led the country since the early 1960s. Then-President Chun Doo-Hwan unveiled plans to revise the constitution to allow more "liberal," democratic elections for President in 1987.

Due to the inability to restore balance in the labor markets and the lack of labor market flexibility, Korean companies lost an opportunity to restructure and regain international competitiveness. The failure of Kia in 1997 reflected these problems. Kia, the auto giant, suffered from an oversupply of automobiles and was in financial difficulty because it had invested in steel and construction companies that were failing. Kia's union was very strong and even participated in management. Kia delayed restructuring, including labor lay-offs, because of union reluctance and eventually the company failed.

In addition, the traditional collectivist approach was not able to adapt effectively to the economic volatility of contemporary markets. The Korean system of mutual support, including within a chaebol, spread the financial difficulties of a few affiliates to the entire group and eventually to the entire financial system. Traditional burden-sharing emphasized solidarity among the corporate sector, banking sector, and government. As one firm ran into difficulties, its problems spread throughout the chaebol, then to the banking sector, and then to the government that backed the banks. The reduced credit ratings within the private sector led eventually to the lowering of the nation's sovereign credit rating.

During these years, Korean society moved from one extreme to another extreme, from domination by management to domination by labor. The society did not find a way to establish a new point of harmonization, and the government failed to arbitrate in its role as a coordinator. In the eyes of many, the government's loss of its role as coordinator was closely related to the moral shortcomings of its leaders. For example, when the Hanbo steel company collapsed under heavy debts in January 1997, its resolution unveiled a scandal involving politicians and government officials who had pressured banks to provide preferential loans. Shortly thereafter, the President's son was accused of bribery.

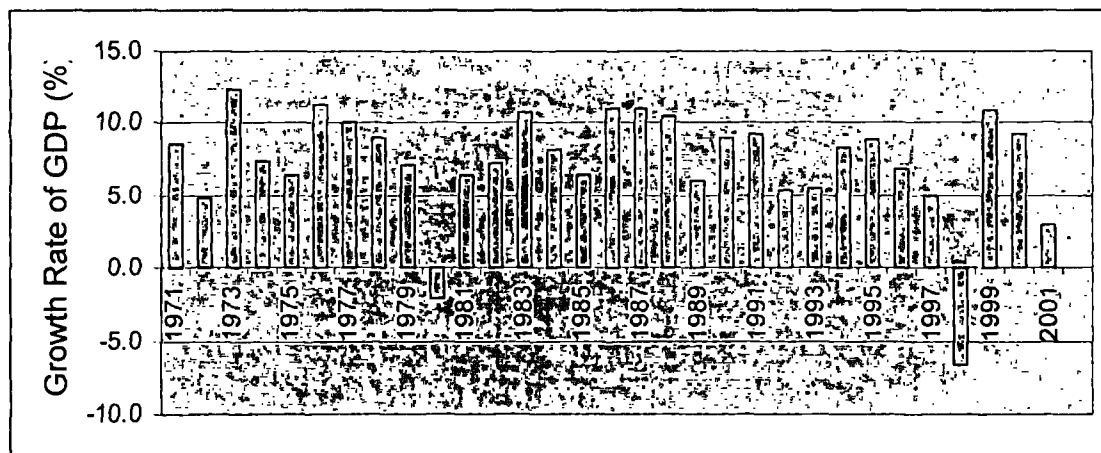
Following the 1997 crisis, Korea implemented labor and banking sector reforms under the conditions imposed by the IMF. These reforms re-established balance within those sectors. Overall, the crisis provided an impetus to move Korean society quickly toward

individualism by introducing more flexible market mechanisms and incentive systems for individual performances.

1999-2000: One More Miracle and the Shift from “Cooperativism/Collectivism” toward “Individualism”

In the aftermath of the financial crisis, the Korean economy experienced the worst recession since the 1950-53 Korean War. In 1998 the GDP growth rate plunged to a contraction of 6.7 percent (see Figure 12). It was a shock to Koreans who had been accustomed to strong growth for three decades and had come to believe that growth of at least 5 percent was needed to absorb new employment of 500,000 per year. Adding to the difficulties caused by the rapid fall of domestic demand and exports, a severe credit crunch triggered a chain of bankruptcies and mass unemployment. Due to the series of bankruptcies and labor market restructuring efforts, Korea's unemployment rates soared from 2.0 percent in 1996 to 6.8 percent in 1998. At its peak, bankruptcy rates indicated that 100 companies failed every day and one out of five wage employees had to leave their working places. The 1999 failure of the Daewoo Group, one of the top three chaebols in the nation, was particularly significant and a warning of the end of Korea's chaebol-led growth engine.

Figure 12 Growth Rate of GDP (1971-2001, constant prices)



Source: BOK (2002)

In the midst of severe economic conditions, the Korean economy showed surprising resilience and rebounded to 10.7 percent growth in 1999 (Figure 12). The Information and Communication Technology (ICT) revolution dramatically impacted the economy and transformed not only Korea's industrial structure but also the lifestyles of most citizens. Due to the explosive spread of the Internet and mobile phones, Korea jumped to a leading place in the world in terms of Internet usage and penetration rates of high-speed Internet networks. Korea has become one of the most e-commercialized countries, gauged by penetration ratios of online shopping, online trading, and online banking. More than two thirds of all households were connected to high speed Internet networks as of August 2002. Despite the slowdown of the global ICT boom since 2001, many Korean dot-com companies have succeeded in establishing profitable businesses due to wide Internet user bases. One more miracle happened in the short time of two or three years.

A variety of economic factors are widely mentioned as causes of the ICT boom. Competition led to lower prices which in turn spurred further increases in demand. For example, price competition helped to expand mobile phone usage, and technology competition helped to spread high speed Internet usage. Consumer needs and increased demand prompted increased production and investment which then led to economies of scale. Young students quickly became fascinated with the Internet through computer games and middle-aged people adopted online stock trading. The stock market boom also boosted investment in new technology.

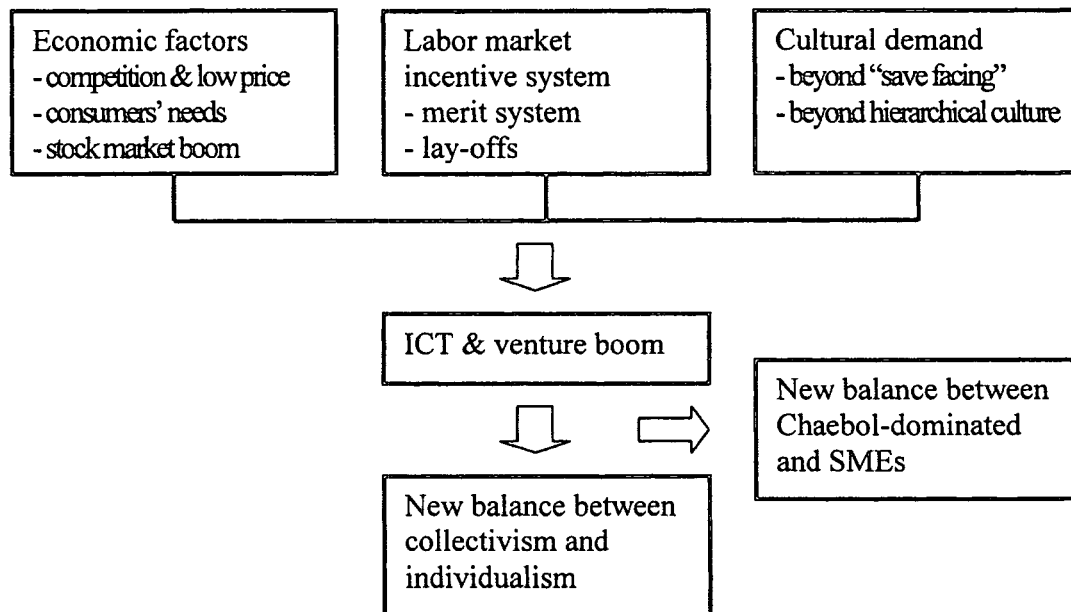
But the economic analysis alone is not enough to explain the dramatic changes in Korea. The cultural transition underway also contributed to the rapid transformation. Although Korea had enjoyed rapid growth before the financial crisis, it had failed to harmonize the gap between the patriarchal management culture and individuals' demands for reasonable compensation. During the crisis, market incentive systems and lay-offs were introduced as key reforms of the labor market. The introduction of labor market incentive systems prompted ambitious young workers, armed with creative talents, to leave their jobs in the chaebols and move to technology oriented ventures.

Cultural demands also fueled the Internet boom. The desire to change their way of life led many Koreans to become fascinated with the Internet. As the country had been shifting along the economic axis toward materialism, it was inevitable that it also shift along the social axis toward a more individualistic culture. Increasingly, people wanted to express their opinions freely and show their capacities in ways that the traditional social customs such as “saving face” and the hierarchical structure could not accommodate. In cyberspace, though, traditionally conservative Koreans could enjoy free debates with login names providing a layer of anonymity. The Internet has helped to ease tensions between old customs and new desires by allowing a coexistence of two sets of values as the society evolves.

The ICT and venture boom contributed to softening Korea’s hierarchical culture. The boom altered many aspects of workplace culture including strict seniority rules, lifetime employment, and company loyalty. Young and talented employees increasingly can advance quickly to high-level managerial positions. Although some older persons are concerned about the “impoliteness” of the younger generation, Koreans can express their opinions substantially beyond the limits of traditional etiquette. By reducing some collectivist aspects of the culture and strengthening individualistic aspects, Korea is forming new social values that are more compatible with economic development and closer to global standards.

The venture boom also changed Korea’s chaebol-dominated economic landscape. Chaebols had nearly monopolized the country’s financial and human resources for a long time. In the past, bright students sought positions in respectable, stable chaebols rather than small-and-medium enterprises (SMEs), and bankers were very generous in providing credit to chaebols. Although it is undeniable that the chaebols were the locomotives of Korea’s growth during the period from the 1960s to the 1990s, that structure was not sufficiently flexible for the more recent stages of development. The decline of the chaebols freed resources for development of the SMEs.

Figure 13 Causes of the ICT Boom and New Socio-economic Balances



The cultural shift from cooperativism/collectivism to individualism also helped the Korean economy to move away from the old chaebol-dominated paradigm to a more flexible, adaptive, market-based economy and networked society. The shift brought about a new balance between Confucian cooperativism/collectivism and market-based individualism, and a new balance between the chaebols and SMEs. The traditional export-and-manufacturing oriented economy led by chaebols was re-balanced by the emergence of a knowledge- and high technology-based economy led by small and medium enterprises. The new balance in the economy helped spur the rapid recovery and discovery of new momentum.

Remaining Issues after 2000: Shift from “Moralism” toward “Legalism”

After the economic crisis in 1997, the Korean government implemented a “Four Plus One” reform program which included financial, corporate, labor, and public sector reforms, and policies to promote foreign direct investment (FDI). Due to the reform programs, Korea’s business sector succeeded in recovering its profitability, and the

financial sector emerged with healthy and profitable institutions. The labor market was now equipped with a more flexible, market-based structure, and the public sector introduced market principles. Amid the global recession caused by the slump of the U.S. stock market, the terrorist attack on September 11, and a series of corporate financial scandals in the U.S., the Korean economy has maintained a relatively strong performance compared to other countries.

Since 2000, though, despite the overall success of reform efforts, financial scandals and political corruption have become a main social issue in Korea. During the investigation of Daewoo's failure, financial irregularities were found and a scandal followed. Daewoo's managers and certified public accountants had manipulated the firm's books to obtain banks loans. In 2001 a series of financial scandals involving the manipulation of stock prices and falsification of accounting statements was revealed. The scandals involved politicians, high-ranking public officials, and the family of the President. The moral shortcomings of the power elite angered many citizens and led to disillusionment with politics.

Korea has been strengthening its legal framework to fight corruption since the 1990s. In 1993 Korea introduced a system of asset registration and reporting for public officials, and the real-name financial transaction system and the real-name real estate transaction system were introduced to promote transparency. In 2001 the Anti-Corruption Law was adopted and the Korea Independent Commission Against Corruption (KICAC), composed of civilians, was established. The Financial Intelligence Unit (FIU) was launched to deter illegal financial transactions.

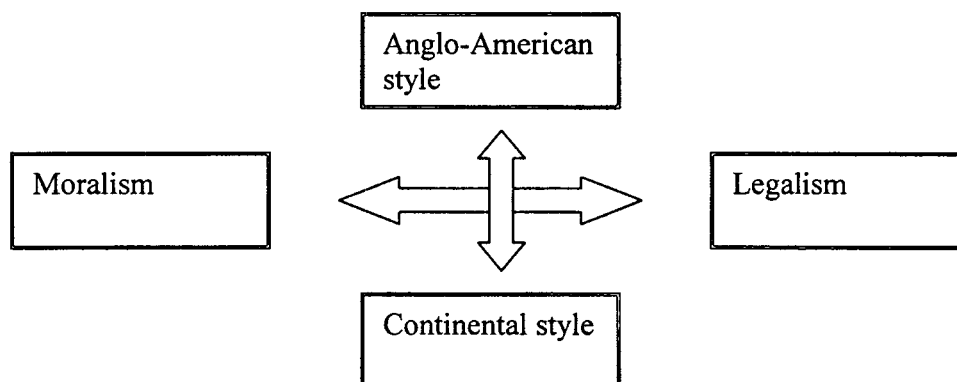
Although Korea has adopted relatively advanced anti-corruption measures, the perception of widespread corruption still prevails. Korea's legal culture provides a partial explanation. Korean society historically has been based on moralism rather than legalism, even though its legal history dates back to the Old Choson Dynasty (2333 – 194 B.C.). During the Japanese occupation period, Korea adopted continental-style legal

codes similar to Japan's, and they became the dominant legal system. Since 1945, Anglo-American style codes have been partially introduced.

Korea's legal culture is confronted with double confusion: first is a conflict between traditional moralism and modern legalism, and second is a patchwork of continental-style codes and Anglo-American style codes. Korea's legal system is based on modern legalism; however, the cultural tradition of moralism sometimes presents conflicts. At times, Koreans have confused moral responsibility and legal responsibility. They usually rely on and follow legal codes, the same as the more-developed countries, but sometimes Koreans call for the traditional moral principles to be enforced. In one case, two top government officials were charged with neglecting their official duties to prevent the financial crisis. Under the criminal codes, the Court found them innocent of the charges, but the public was outraged over their acquittal. The public would have preferred that the officials be prosecuted and punished based on traditional moral responsibility.

Traditional moralism has also led Koreans to expect and establish strict criteria and standards when laws are made. This tendency can sometimes lead to unrealistic laws that can weaken efforts to promote compliance. Tax laws that set extremely high rates on donations and inheritances and election laws that establish unrealistically low limits on campaign spending are examples. Under these circumstances, some people do not feel that they have violated their moral code, even if they violate regulations.

Figure 14 Double Confusion in Legal Culture



The confusion between the continental tradition and Anglo-American standards also undermines consistency in the legal system. The continental approach based on civil codes provides the foundation of Korea's modern legal system. Since the crisis, the trend to extend the Anglo-American approach has accelerated, particularly in areas related to capital markets and capital market regulation. The continental-style legal system brought about complicated legal codes, together with broad authority delegated to government officials.

Korean society has traditionally been based on strong moralism influenced by Confucianism; Koreans take pride in the saying "We are able to live without law." It was evidence of the society's high morality that Korea's rapid development was not marred by public corruption scandals, even during the rapid growth period when the government intervened in markets to allocate resources. But as the economy has developed and the society has moved toward individualism, the traditional ethical sense has been weakened. Although Korea has an established legal system, the culture of legalism and law-abiding spirit have not yet caught up to international standards.

Korea's recent financial scandals reflect cultural issues rather than the lack of a legal framework. Korea's difficulties also include transparency problems as well as corruption. Improvement of transparency and compliance will require adjustments in Korea's heterogeneous legal system. For this purpose, complicated and unrealistic codes should be revised, a law-abiding sense should be encouraged, and a consensus for consistent social principles should be established.

Overall, Korea has coped with the new challenges it faced as it developed and established a new balance in its cultural space. An important remaining issue, though, is the need to achieve a balance between moralism and legalism on the political axis. Korea has already reached new balances by shifting on the social axis toward individualism from cooperativism/collectivism and on the economic axis toward materialism from spiritualism. The movement toward materialism and individualism is pushing Korean

society to move toward legalism. A more consistent legal framework, coupled with improved transparency, would contribute not only the development of a modern capital market to help ensure sustainable growth but also increased maturity in politics that will provide a base of democracy.

Over the past forty years, various aspects of Korea society have succeeded and failed in finding a new equilibrium between traditional culture and international trends and continue to evolve. Korea achieved rapid growth in the 1960s to 1980s by moving from spiritualism to materialism. It suffered a financial crisis in 1997 when it failed to maintain harmony between cooperativism/collectivism and individualism that had exhibited friction since 1987. As it shifted toward individualism, Korea moved to an Internet-based society while recovering from the crisis and recession in a short span of time between 1999 and 2000. After overall success in implementing the reform projects, Korea has been tackling its next challenge -- finding a new harmonization between moralism and legalism.

V. Conclusions

As it entered the 21st century, China joined the WTO, whereas Afghanistan's Taliban government supported the terrorist attack on the World Trade Center. China chose globalization, while the Taliban government fought against it. Globalization, characterized by free trade and capital flows, has become a leading global trend and a crucial element in economic development. Some countries, though, have not embraced globalization, primarily because it not only exposes economies to external fluctuations but also forces countries to open their societies to outside influences such as the culture of western-style democracy, open market systems, capitalism, and individualism.

Culture, then, should be considered one of the main issues of development. This study proposes a unique three-dimensional cultural analysis that consists of social, political, and economic axes. It describes the East Asian regional culture through analysis of historical and philosophical backgrounds and traces its movement toward globalization. East Asia's regional culture is studied as an example because no region has been more dynamic in both the upside and downside of development. Since the 1960s, a pattern of rapid growth has occurred in Japan, the four NIEs (South Korea, Singapore, Taiwan - China, and Hong Kong), and recently China. In particular, Korea's progress has been very impressive, jumping from a very poor agricultural country in the 1960s to become an OECD member in 1995.

East Asian culture is obviously very different from and in some ways the opposite of Western culture. East Asia's cultural space reflects a pattern of cooperativism/collectivism, moralism, and spiritualism, compared to the West's individualism, legalism, and materialism. Two millennia ago, the Qin Dynasty (221-206 B.C.) first unified China under the Legalist approach of legal transparency and economic efficiency. The Legalist system was surprising close to the modern western approach; it promoted prosperity by encouraging individual motivations and kept social order by a framework of laws. The Qin Dynasty lasted only 15 years, though, and since then

Confucian-style cooperativism/collectivism, moralism, and spiritualism have dominated the region.

The traditional East Asian system stresses spiritual happiness by emphasizing mutual assistance and achieves social harmony by a framework based on moral principles and etiquette. As global integration has accelerated and East Asia has entered the global economy, East Asian culture seemingly has started to move, in a relative short span of time, somewhat toward Western characteristics of individualism, legalism, and materialism. Similarly, some of the harshest aspects of laissez-faire capitalism have been modified over the past century. It would seem natural that the two systems progress toward a convergence over time, as extreme cooperativism/collectivism moves toward individualism, and extreme individualism moves toward cooperativism/collectivism.

East Asia, with its distinct cultural background, generally succeeded in joining the trend toward globalization. The principles of East Asia's dynamic development can be explained by its traditional Yin-Yang and Five Elements theories. East Asians believe that a balance between opposite but complementary forces, Yin and Yang, will ensure social stability and progress. Through repeated re-balancing in order to maintain harmony, the society comes to maturity. Historically in traditional East Asian societies, a philosophical balance was maintained between Confucianism (Yang) and Taoism, Buddhism and others (Yin). In modern societies in the process of development, the challenge is to find a balance between the traditional systems (Yang) and Western style capitalism (Yin). But this new balance (and so progress) does not always come easily. The society must be ready to allow the introduction of new ideas, and the coordinating mechanism (a strong benevolent government or a system of checks and balances) must work to establish balance. East Asia's Yin-Yang model provides cultural flexibility that allows the societies to adapt to new trends.

This study obviously rejects "cultural determinism." It is widely suggested that Confucianism contributed to East Asia's prosperity (Harrison 1992, Harrison and Huntington 2000) but Confucianism alone is not enough. Instead, it is cultural richness

and diversity (Sen, 2003) and the cultural dynamics based on East Asia's traditional philosophies that underlie the region's development. Confucianist values brought progress and prosperity only when the society succeeded in re-balancing, adjusting to a new momentum such as western capitalism. When balance is not re-established, Confucian values can work to the contrary and become an obstacle to development (Nam 1997, Theodore de Bary 1996). The differences between South Korea's prosperity and North Korea's slump, both rooted in the Confucian tradition, provide an example.

This East Asian development model explains the process of Korea's development, its ups and downs. To a considerable extent, Korea's poverty could be attributed to the traditional dominance of spiritualism (Yang); since the 1960s the country achieved rapid growth by injecting a degree of materialism (Yin). Disharmony between cooperativism/collectivism (Yang) and individualism (Yin) after 1987 contributed significantly to the financial crisis in 1997, and the restoration of balance through reform helped spur the ICT boom and rapid recovery. The financial scandals since 2000 indicate the need to find a new harmony between moralism (Yang) and legalism (Yin).

This study provides several insights. First, culture plays a major role in development by either assisting a shift toward global momentum or resisting it -- thus, the need for a holistic approach to development. Second, East Asia's case shows that regional cultural diversity can coexist with globalization. East Asian countries succeeded in achieving poverty reduction and a new social balance without losing their cultural identity. Third, the study of historical and philosophical backgrounds provides insights into East Asian business and economic conditions, patterns, and systems.

References

- Ames, Roger T. and Henry Rosemont, Jr. (1998), *The Analects of Confucius: A Philosophical Translation*, New York: Ballantine Books.
- Appadurai, Arjun (1996), *Modernity at Large: The Cultural Dimensions of Globalization*, Minneapolis, Minnesota.
- Bank of Korea (BOK) (1998), *Principal Economic and Social Indicators 1945-1998*, BOK, Seoul.
- Choi, Ho-Jin (1976), *Selection of Papers on the Korean Economy*, Seoul: Yonsei University Press, (Written in Korean).
- Dollar, David and Karry, Aart (2001), "Trade, Growth, and Poverty," *Finance & Development*, September pp.16-19.
- Dore, Ronald (1998), "Asian Crisis and the Future of the Japanese Model," *Cambridge Journal of Economics*, 22, pp.773-787.
- The Economist* (2001), Survey: Asian Business: Of Laws and Men, April 5, pp.15-17.
- Earley, P. Christopher, and Cristina B. Gibson (1998), "Taking Stock in Our Progress on Individualism-Collectivism: 100 Years of Solidarity and Community," *Journal of Management*, 24 (3), pp.265-304.
- Friedman, Milton and Rose Friedman (1980), *Free to Choose*, New York: Harcourt, Brace, Jovanovich.
- Friedman, Thomas L. (2000), *The Lexus and the Olive*, Vintage Anchor Publishing.
- Furman, Jason and Joseph E. Stiglitz. (1998), "Economic Crisis: Evidence and Insights from East Asia," *Brookings Papers on Economic Activity*, 2, pp.1-135, Washington, DC.
- Harrison, Lawrence E. (1992), *Who Prospers: How Cultural Values Shape Economic and Political Success*, BasicBooks, NY.
- Harrison, Lawrence E. and Samuel P. Huntington (2000) eds., *Culture Matters: How Values Shapes Human Progress*, Basic Books, NY.
- Hinton, David (translator) (1998) *Mencius*, Counterpoint, DC.
- Hofstede, Geert (1991) *Cultures and Organizations: Software of the Mind*, McGraw-Hill, NY.
- Hopkins, Raul, Andrew Powell, Amlan Roy, and Christopher L. Gilbert (2000), "The World Bank, Conditionality and the Comprehensive Development Framework,"

pp. 282-298, in *The World Bank, Structure and Policies* edited by Christopher L. Gilbert and David Vines, Cambridge University Press.

Huntington (1993), "Clash of Civilizations," *Foreign Affairs*, 72, Summer, pp.22-49.

Lafayette De Mente, Boye. 1994. *Japanese Etiquette & Ethics in Business* (Internet version at <http://www.executiveplanet.com>).

Lee, Ki-Baik (1984), *A New History of Korea*, (translated by Edward Wagner with Edward J. Shultz), Boston: Harvard University Press.

Liechti, Elaine (1998), *The Complete Illustrated Guide to Shiatsu: The Japanese Healing Art of Touch for Health and Fitness*, Barnes & Noble Books, NY.

Library of Congress (1990), *South Korea—A Country Study*, Library of Congress, Washington, DC.

Lin, Yutang (editor and translator), (1994), *The Wisdom of Confucius*, The Modern Library, NY.

Nam, Duck-Woo (1997), *Korea's Economic Growth in a Changing World*, Samsung Economic Research Institute, Seoul.

Organization for Economic Co-operation and Development (OECD) (1996), *The Knowledge-Based Economy*, Paris.

Osborne, Richard and Borin Van Loom (1996), *Introducing Eastern Philosophy*, Totem Books USA, NY.

Overholt, William H. (1997), "Is the Asian Miracle Over?", *The International Economy*, Nov./Dec., pp.29-33.

Perry, Bill (2000), *A Look Inside America: Exploring America's Cultural Values and Holidays*, Multi-Language Media Inc., PA.

Rao, Vijayendra Rao and Michael Walton (2003) eds., *Culture and Public Action*, World Bank, DC.

Rembar, Charles (1989), *The Law of the Land: The Evolution of Our Legal System*, HarperCollins, NY.

Saghiyeh, Hazem (2001), October 15, *Times*, Vol. 157 No. 17 "It's Not All America's Fault."

Scruton, Roger (2002), *The West and the Rest: Globalization and the Terrorist Threat*, ISI Books, Wilmington, DE.

Sen, Amartya (2003), "How Does Culture Matter?," in Rao, Vijayendra Rao and Michael Walton (2003) eds., *Culture and Public Action*, World Bank, DC.

- Sowell, Thomas (1994), *Race and Culture: A World View*, BasicBooks, NY.
- Stiglitz, Joseph E. (2002), *Globalization and Its Discontents*, W.W.Norton & Company, NY.
- Stiglitz, Joseph E. (2001), "From Miracle to Crisis to Recovery: Lessons From Four Decades of East Asian Experience," pp. 509-525, in Stiglitz, Joseph E. and Shahid Yusuf eds. (2001), *Rethinking the East Asian Miracle*, World Bank, Washington, DC.
- Stiglitz, Joseph E. and Shahid Yusuf eds. (2001), *Rethinking the East Asian Miracle*, World Bank, Washington, DC.
- Theodore de Bary, William (1996), *Trouble with Confucianism*, Harvard University Press, MA.
- Toynbee, Arnold Joseph (1948-61), *A Study of History*, 12 v., Oxford University Press, London.
- Wade, Robert (1998), "From 'Miracle' to 'Cronyism': Explaining the Great Asian Slump," *Cambridge Journal of Economics*, 22, pp.693-706
- Waley, Arthur (1989), *The Analects of Confucius*, Vintage Books, NY, translated and annotated
- Weder, Beatrice (1999), *Model, Myth, or Miracle? Reassessing the Role of Governments in the East Asian Experience*, United Nations University Press, Tokyo.
- Wolfensohn, James D. (1999), A Proposal for a Comprehensive Development Framework, World Bank, (Internet version at <http://www.worldbank.org/cdf/cdf-text.htm>).
- Wolferen, Karel Van. (1989) *The Enigma of Japanese Power.*, Knopf Alfred A., NY.
- World Bank (1993), *The East Asian Miracle*, Washington, DC.
- World Bank (2002), *East Asia Rebound, But How Far?*, Washington, DC.
- Yusuf, Shahid, and Simon J. Evenett (2002), *Can East Asia Compete?: Innovation for Global Markets*, World Bank, Washington, DC.

Annexes

Annex 1. Korea's GNP and GDP 1953-1987

	<i>GNP</i> million dollars	<i>GDP</i> million dollars	<i>Per Capita GNP</i> \$	<i>GNP Growth Rate</i> %
1953	1353	1336	67	
1954	1452	1438	70	5.1
1955	1395	1378	65	4.5
1956	1450	1436	66	-1.4
1957	1666	1654	74	7.6
1958	1875	1861	80	5.5
1959	1949	1936	81	3.8
1960	1948	1970	79	1.1
1961	2103	2083	82	5.6
1962	2315	2294	87	2.2
1963	2718	2700	100	9.1
1964	2876	2855	103	9.6
1965	3006	2978	105	5.8
1966	3671	3624	125	12.7
1967	4274	4200	142	6.6
1968	5226	5153	169	11.3
1969	6625	6549	210	13.8
1970	8105	8055	252	7.6
1971	9456	9464	288	9.1
1972	10632	10674	318	5.3
1973	13446	13550	395	14.0
1974	18701	18866	540	8.5
1975	20795	21124	590	6.8
1976	28550	28917	797	13.4
1977	36629	37160	1008	10.7
1978	51341	51997	1392	11.0
1979	61361	62325	1640	7.0
1980	60327	62371	1589	-4.8
1981	66238	69024	1719	6.6
1982	69345	72336	1773	5.4
1983	75998	78597	1914	11.9
1984	82392	85443	2044	8.4
1985	83684	86741	2047	5.4
1986	95274	98312	2300	12.3
1987	118593	121339	2826	12.0

Source: BOK (1988)

Annex 2. Korea's GDP 1970-2001

	GDP (at current prices) 100 million dollars	GNP (at current prices) 100 million dollars	Per Capita GDP \$	GDP Growth Rate %
1970	80	80	249	
1971	94	94	286	8.6
1972	106	106	316	4.9
1973	135	134	394	12.3
1974	188	187	540	7.4
1975	211	209	592	6.5
1976	289	287	799	11.2
1977	371	368	1009	10.0
1978	520	517	1399	9.0
1979	619	614	1636	7.1
1980	622	609	1598	-2.1
1981	696	677	1749	6.5
1982	744	726	1847	7.2
1983	823	806	2020	10.7
1984	906	885	2190	8.2
1985	934	909	2229	6.5
1986	1076	1051	2550	11.0
1987	1352	1333	3201	11.0
1988	1808	1794	4268	10.5
1989	2207	2201	5185	6.1
1990	2525	2523	5886	9.0
1991	2951	2949	6810	9.2
1992	3147	3143	7183	5.4
1993	3457	3452	7811	5.5
1994	4024	4017	8998	8.3
1995	4894	4881	10823	8.9
1996	5200	5183	11385	6.8
1997	4766	4740	10315	5.0
1998	3177	3121	6744	-6.7
1999	4058	4007	8589	10.9
2000	4617	4592	9770	9.3
2001	4222p	4213p	8900p	3.0p

Source : BOK (2002) (at Internet <http://www.bok.or.kr>)

Annex 3. Number of Strikes and Workdays Lost in Korea

	Number of Strikes and Lockouts	Workdays Lost due to Strikes and Lockouts (1,000 days)	Workers Involved in Strikes and Lockouts (1,000 persons)
1984	114	20	16
1985	265	64	29
1986	276	72	47
1987	3749	6947	1262
1988	1873	5401	293
1989	1616	6351	409
1990	322	4487	134
1991	234	3271	175
1992	235	1528	105
1993	144	1308	109
1994	121	1484	104
1995	88	393	50
1996	85	893	79
1997	78	445	44
1998	129	1452	146
1999	198	1366	92
2000	250	1894	178
2001	235	1083	89

Source: MOL (2002) (at Internet <http://www.molab.or.kr>)

Policy Research Working Paper Series

	Title	Author	Date	Contact for paper
WPS2968	Refining Policy with the Poor: Local Consultations on the Draft Comprehensive Poverty Reduction and Growth Strategy in Vietnam	Edwin Shanks Carrie Turk	January 2003	N Lopez 88032
WPS2969	Fostering Community-Driven Development: What Role for the State?	Monica Das Gupta Helene Grandvoinnet Mattia Romani	January 2003	M Das Gupta 31983
WPS2970	The Social Impact of Social Funds in Jamaica. A Mixed-Methods Analysis of Participation, Targeting, and Collective Action in Community-Driven Development	Vijayendra Rao Ana María Ibáñez	February 2003	P Sader 33902
WPS2971	Short but not Sweet: New Evidence on Short Duration Morbidities from India	Jishnu Das Carolina Sánchez-Páramo	February 2003	H Sladovich 37698
WPS2972	Economic Growth, Inequality, and Poverty Findings from a New Data Set	Richard H Adams, Jr	February 2003	N Obias 31986
WPS2973	Intellectual Property Rights, Licensing, and Innovation	Guifang Yang Keith E Maskus	February 2003	P Flewitt 32724
WPS2974	From Knowledge to Wealth Transforming Russian Science and Technology for a Modern Knowledge Economy	Alfred Watkins	February 2003	A Watkins 37277
WPS2975	Policy Options for Meeting the Millennium Development Goals in Brazil: Can Micro-Simulations Help?	Francisco H G Ferreira Phillippe G. Leite	February 2003	P Sader 33902
WPS2976	Rural Extension Services	Jock R Anderson Gershon Feder	February 2003	P Kokila 33716
WPS2977	The Strategic Use and Potential for an HIV Vaccine in Southern Africa	Christopher Desmond Robert Greener	February 2003	H Sladovich 37698
WPS2978	The Epidemiological Impact of an HIV Vaccine on the HIV/AIDS Epidemic in Southern India	Nico J D Nagelkerke Sake J De Vlas	February 2003	H Sladovich 37698
WPS2979	Regulation and Internet Use in Developing Countries	Scott Wallsten	March 2003	P Sintim-Aboagye 37644
WPS2980	Living and Dying with Hard Pegs The Rise and Fall of Argentina's Currency Board	Augusto de la Torre Eduardo Levy Yeyati Sergio L. Schmukler	March 2003	E Khine 37471
WPS2981	Voice Lessons. Local Government Organizations, Social Organizations, and the Quality of Local Governance	Vivi Alatas Lant Pritchett Anna Wetterberg	March 2003	A Sachdeva 82717
WPS2982	Trade Liberalization and Labor Market Adjustment in Brazil	Nina Pavcnik Andreas Blom Pinelopi Goldberg Norbert Schady	March 2003	A Pillay 88046

Policy Research Working Paper Series

Title	Author	Date	Contact for paper
WPS2983 Telecommunication Reform in Ghana	Luke Haggarty Mary M. Shirley Scott Wallsten	March 2003	P. Sintim-Aboagye 37644
WPS2984 Finance and Income Inequality: Test of Alternative Theories	George Clarke Lixin Colin Xu Heng-fu Zou	March 2003	P. Sintim-Aboagye 37644
WPS2985 The Impact of Minimum Wages on Employment in a Low Income Country. An Evaluation Using the Difference-in-Differences Approach	Vivi Alatas Lisa Cameron	March 2003	T. Maile 87347
WPS2986 Government Bonds in Domestic and Foreign Currency: The Role of Macroeconomic and Institutional Factors	Stijn Claessens Daniela Klingebiel Sergio Schmukler	March 2003	E. Khine 37471